FOREIGN
BROADCAST
INFORMATION
SERVICE

Daily Report

Supplement

Central Eurasia

FBIS-SOV-95-042-S
Friday
3 March 1995

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

Central Eurasia
SUPPLEMENT

FBIS-SOV-95-042-S 3 March 1995

CONTENTS

NOTICE: An * indicates material not disseminated in electronic form.

RUSSIA NATIONAL AFFAIRS

Economic Issues

* Prospects for IMF's Extending Russia Credit Analyzed *[KOMMERSANT 14 Feb]* 1
*Investors Meet, Reflect on Lessons Learned *[SOVETSKAYA SIBIR 25 Feb]* 3
* Successful Enterprises Listed by Economy Ministry *[SEGODNYA 25 Feb]* 5
* Report on Moscow Currency Trading *[KOMMERSANT-DAILY 24 Feb]* 7
* Moscow Metro Financial Woes Cited *[OBSHCHAYA GAZETA 16-22 Feb]* 8
* New Financial Communications System to Be Developed *[IZVESTIYA 2 Mar]* 8
* Arbitration Court Chief Yakovlev Interviewed *[NOVOYE VREMYA Feb]* 9
* Labor Party Leader Views Russia's Economic, Political Prospects *[NEZAVISIMAYA GAZETA 22 Feb]* 10
*Duma Hearings on Anti-Inflationary Measures *[KOMMERSANT-DAILY 15 Feb]* 13
* Gusev on Taxation System Policy *[ARGUMENTY I FAKTY Feb]* 14
Tax Police Official on Tax Evaders, Other Tax Crimes *[ROSSIYSKIYE VESTI 16 Feb]* 15
* Deterioration in Living Standard, Unemployment on Rise *[TRUD 15 Feb]* 17
Kama Motor Vehicle Plant Strategic Development Plan Viewed *[ROSSIYSKAYA GAZETA—BIZNES V ROSSII 17 Feb]* 18
*New Diamond Export Agreement with De Beers Discussed *[KOMMERSANT-DAILY 17 Feb]* ... 19
Protection of Consumer Cooperatives' Interests Debated *[SELSKAYA ZHIZN 18 Feb]* 22
State of Food Market Assessed; Production Figures Cited *[NEZAVISIMAYA GAZETA 8 Feb]* 23
* State of Fuel, Energy Complex in 1994, Main Directions for 1995 *[KOMMERSANT-DAILY 14 Feb]* 25
* Development of Experimental An-70 Plane Detailed *[IZVESTIYA 23 Feb]* 28

UKRAINE

Economic Issues

Catalogue of Hazardous Industrial Waste Cited *[UKRINFORM]* 30
Statistics Ministry Data on Trade by Commodity Categories *[UKRINFORM]* 31

Economic Issues

* Prospects for IMF's Extending Russia Credit Analyzed

954F1429A Moscow KOMMERSANT in Russian No 5, 14 Feb 95 pp 28-29

[Article by Andrey Galiyev, Andrey Tugay and Valeriy Fadeyev: "IMF: It has Flown Away, but It has Promised to Return"]

[FBIS Translated Text] *"Prime (Praym)" Agency information was used in the preparation of the material.*

The departure of the delegation of the International Monetary Fund from Moscow, which appeared headlong to many, has given rise to a lot of rumors and practically universal lack of understanding of what fate is in store for the $6 million on which the Russian government seemingly counts to cover the 1995 budget deficit. That is precisely why KOMMERSANT's experts have made their own attempt to look into the situation, having sought the opinion of official representatives of the structures directly participating in the negotiations.

The Opinion of the IMF

The head of the International Monetary Fund is Michel Camdessus. He is quoted on the basis of information from the Reuter and AFP agencies.

In the words of Mr. Camdessus, in the course of the discussion the Russian officials gave "courageous and appropriate answers" to questions concerning economic policy. However, their assertions are not enough to confirm an agreement. The IMF will study the information obtained "with a view to very quickly completing work in Moscow and with the hope of speedily reaching an agreement."

"Russia needs this agreement and the world needs for there to be no problems in the Russian economy."

"The tax collection results have disappointed expectations," and the ruble has fallen rapidly while inflation has grown and this has been "very dangerous and especially disappointing."

Michel Camdessus also said that he wants to strengthen the structures for tracking the economy of countries which are resolving serious problems—in order to avoid such crises as broke out in Mexico in December (for material on the Mexican crisis see pp 30-31).

The Opinion of the Ministry of Finance

Andrey Vavilov, first deputy minister of finance, held a press conference on 8 February on the subject "The results of the negotiations of the delegation of the government of the Russian Federation with the IMF mission."

[Vavilov] On Monday we completed a routine stage of the negotiations with the IMF on the extension of stand-by credits. I would like to add to what has been stated in the joint communique that in principle we have succeeded in finding an approach with respect to a majority of the problems related to monetary and financial policy. We have essentially coordinated the greater part of the measures regarding structural policy. Now we have taken a two-week break in order for us to discuss everything definitively in the government and to determine our position regarding all these measures, and for the IMF mission to work out the technical details regarding the implementation of this agreement. And we hope to conclude the negotiations after a short time, at the end of February—beginning of March...

On the statements of Michel Camdessus. I read Mr. Camdessus's interview. If one reads the entire interview closely, it is demonstrated there that the break was taken so that the IMF mission could consult with its leadership and the Russian delegation with the government. We have found acceptable approaches and we need time to ratify all these decisions. And I don't see any hold-up whatever related to other causes...

On Chechnya. The question of the war in Chechnya was not discussed in the course of the negotiations. There was only a question about how we intend to finance these expenditures. And we answered it as we answered it in the Duma...

On import tariffs and specialized exporters. A six percent import tariff requirement was not proposed. The question was that we need to make a firm statement about our policy regarding the customs duty. And we precisely intend to do that in the course of implementing this program. As far as the institution of specialized exporters is concerned, this question was discussed. A final decision has not yet been made. .

On a fixed exchange rate. As far as a fixed exchange rate is concerned, this question also was not discussed in the course of the program. My personal point of view is that we hardly will permit ourselves such a measure—after what happened in Mexico...

On the probability of the failure to repay foreign debts. Since 1992 Russia has discharged all its obligation with respect to the foreign loans it has subscribed to. That's the first thing. Second, since 1993, when the first agreement with the Paris Club about the restructuring of payments was signed, all payments have also been carried out. And the goverment has no intentions whatever about defaulting on these payments. It didn't and it won't.

On the measures agreed upon with the IMF which can prove to be the most complicated for discussion in the government. Naturally, the fiscal measures are being received with difficulty but here the majority of the decisions have already been taken. In addition there is a certain bloc—the liberalization of foreign trade. And this question, in principle, was also discussed several times in the government and I think that there won't be great problems for adopting it. The negotiations with the IMF simply stimulate us to make these decisions in the near future.

Concerning support on the part of the government. Specific measures of support for our program were not discussed in the course of the negotiations. The question of the support

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

of the course of the reforms by the president and the government was discussed by members of the government and first vice premier Chubays at meetings with the IMF leadership. The task of the mission did not include the question of negotiations on this subject.

On one-two percent inflation a month. At the end of the year? Yes, I'm absolutely positive that this can be achieved. I'm not talking about what inflation will be in reality, but I'm absolutely convinced that these goals are achievable.

On the time periods for receiving money from the IMF. Here we and the IMF have different opinions. That is why I wouldn't want now to name a precise date when we expect to receive these funds.

The Opinion of the Ministry of Economics

The Minister of Economics, Yevgeniy Yasin, has given an interview to a KOMMERSANT correspondent. The conversation with Mr. Yasin quickly went beyond the specific occasion—the interrupted negotiations with the IMF. A broad range of problems related in one way or other to the subject being covered have been touched upon in it.

[KOMMERSANT] Yevgeniy Grigoryevich, the IMF delegation has left the negotiations. How serious is this and what are the chances of obtaining the credits this year?

[Yasin] One shouldn't dramatize the situation. The IMF appears to be satisfied regarding the majority of the items of the course of the reforms. However, something disturbs them. In particular, the decree on oil. A decision regarding the liberalization of exports has been taken on the governmental level. However, the fund's representatives suspect that this decree will not be implemented at the lower level. That actually quotas will be retained. Something troubles them with respect to the budget and to customs tariffs.

However, I am sure that in the end they will extend us the credit. Perhaps the fund's Council of directors will adopt a positive decision within a month.

[KOMMERSANT] IMF's position is important not only in connection with state credits but also as a signal for foreign private investors. It is clear that it is not the credits of international organizations but precisely private money that can exert any amount of significant influence on Russia's economy.

[Yasin] I agree with you. Today the state has practically no funds of its own. We will be able to finance only highly profitable and highly efficient investment projects by adding 20 percent of government funds each to 80 percent of private investments. Under conditions of financial stabilization we ought to stimulate investments in any production, not excluding trade. However, the pay-off time of such projects ought not to exceed two years, as has been stipulated by presidential edict.

Under these conditions foreign investments are becoming far more attractive for Russia since western investors can invest funds for longer periods—they have more funds and the price of the credits is less.

Russia is extremely interested in all kinds of foreign investments—foreign credits, portfolio investments, direct investments. According to Ministry of Economics estimates approximately $3.5 billion have been invested today in Russia—extremely little. The increase during 1994 has come to about $1 billion in direct investments. However, our political and economic problems of the end of last year and the Mexican crisis have cooled the interest of investors towards Russia.

Nevertheless, Russia would be able to attract $2-3 billion of private investments already this year if the government will link up financial stabilization with the creation of a favorable investment climate.

Three factors should become decisive for the Russian government in 1995 in the area of attracting foreign investments. The government must achieve a reduction of the rates of inflation, reduce the risk for foreign investors in Russia and demonstrate its own willingness to pay both with respect to Russian debts and with respect to the obligations of the former Soviet Union.

[KOMMERSANT] Are western investors prepared for large-scale infusions?

[Yasin] Investors are ready to invest. It is my profound conviction that, despite all the misgivings concerning Russia, the investors who want to invest money and to invest a great deal are standing at the ready. In the course of the forum in Davos a number of western businessmen, showing their hands, said that if the Russian leadership would demonstrate its interest in attracting western investments, the money, undoubtedly, would enter the economy.

[KOMMERSANT] What determines Russia's attractiveness for foreign investors?

[Yasin] First of all it is the unlimited opportunities to do well in Russia. In recent years the world did not offer investors any new revolutionary directions that ensure high profits. In this respect Russia represents a country that is unique.

Russia has a profoundly deformed economy in need of complete structural reorganization. This is our minus, but at the same time our plus. In the next few years the deformity of the Russian economy can play for the West a similar role as the emergence of important technical innovations. Given certain conditions Russia can for some period become the locomotive for the world economy.

[KOMMERSANT] In your opinion what are the basic factors blocking the growth of foreign investment?

[Yasin] Two main obstacles continue to keep foreign investors from investing in Russia—inflation and various kinds of risks. As for inflation, financial stabilization is a categorical imperative. Earlier the government assumed that the overall level of inflation will come to approximately 25-30 percent annually by the end of 1995. However, it is obvious that one can talk about such figures now only by not taking the inflation rates for the first quarter into account. According to our conservative estimates one can anticipate

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

reductions in the rates of inflation from double-digit to single-digit figures in March and gradual financial stabilization by the end of the year.

The second category of obstacles relate to Chechnya, the Polevanov problem, and unexpected edicts or decrees of the president and government about unjustified privileges for various structures. The perception of Russia by foreign investors continues to proceed on the level of such signals. Such steps of ours persuade them that one cannot operate in Russia.

The problem of political risk is on the whole far more complicated than the problem of inflation. There is the mafia and corruption and fighting them is complicated. The government intends to strengthen the structures of authority and law and order in order to reduce the risk for investors and create a more stable political and economic situation. It is now hard to say what will happen but the government will do everything within its powers.

[KOMMERSANT] When can one expect an improvement in the investment climate?

[Yasin] Fundamental improvement of the investment climate has begun since the fall of last year when the Council on Foreign Investments was created under the prime minister of the Russian Federation. A number of steps which the president, the government and parliament have now undertaken were developed with the participation of western investors. In particular, the government and the parliament have now reduced taxes for enterprises with foreign participation. The taxing of companies with a share of foreign capital of more than 30 percent (no less than $10 million) has essentially been placed on the same footing as the taxation of small enterprises. Investors are exempted from customs duties, the value-added tax, and excises when delivering equipment for operational enterprises and when investing in authorized capital. An edict concerning preferential customs duties for firms which import products and invest the profit obtained in Russia has recently been signed and the tax on the exchange rate differential has been abolished. The question of reducing or abolishing the tax on the above-norm consumption fund for enterprises with foreign participation is being examined. We must and we will grant preferences to investors if we want to attract capital into Russia.

*Investors Meet, Reflect on Lessons Learned

954F1560A Novosibirsk SOVETSKAYA SIBIR in Russian 25 Feb 95 p 20

[Article by Nadezhda Antipina, director of the Information-Reporter Group: "The People Are the Investors"]

[FBIS Translated Text] No matter how much we complain about life, a certain part of the population has money to spare and is constantly making up its own mind on the question: "How can the funds be put to the best use?" As soon as a person begins to make up his mind on this question, he becomes an investor.

An investor is a physical or legal person who acquires securities for the purpose of long-term investment of funds in a sound enterprise, with a steady income.

Just a year ago, the promises that many banks made, of high income-interest on deposits, attracted the population. Several financial firms handled the collection of funds, especially since no licenses were required for this type of activity. Free entrepreneurial initiative was in fashion. It got its start from the time when the head of the state gave permission: take as much freedom as you can "swallow."

Businessmen—honest ones and swindlers, conscientious and misleading ones—began to stroll through Russia. All in the same, as they say, geo-financial field, with no legal basis which would make it possible for the state to restrict and control this activity.

Our people are used to trusting. For many years, it was the state, even though it constantly deceived them. One cannot live without faith, and there was no other object for it except the state. But then came freedom of choice—MMM, Hermes, Hoper ... and numerous banks. Some people thought they could live the rest of their lives on the interest, without working. They sold property, cut down on the square meters of housing, and took the money they made to banks, finance and other companies. In order to avoid making things difficult for themselves by redrafting contracts, they concluded them on the spot for long terms: for six months, one year, three years. They paid no attention to the fact that the country was going out on a market path, which does not guarantee stability, but offers risk and bankruptcy.

The sobering-up time came for everyone this fall, when the firms—the ones who had collected the people's funds—began to be very reluctant to return them. This was particularly true of firms, yes and banks too, which relied mainly on the deposits of physical persons and used these deposits to implement planned projects or build offices to reinforce their own well-being.

SIbank, which I often mention, can serve as an example of the confusion of emphases with respect to the deposits of physical persons. It is going through difficult times right now, secretly counting on the depositors, but, having changed the founders and the management, it has narrowed its sphere of activity to a proven circle of legal persons. It intended, in this way, to get on its feet and deal with what it was established for—mortgages.

The Stayling Corporation is now becoming an example of a schemer-company, eating up the people's funds. What rumors are going around about V. Gavrilov, its general director! I recently saw a television feature, in which some woman, whose face was hidden behind a computer "cellule," informed us of the sexual excesses of this gentleman. They say that the corporation bought a large building at an auction, and could not settle accounts for it with the Goscomimushchestvo administration on time. All the same, the procurator's office intends to give Stayling a good "shaking up," so that the corporation will pay off the depositors with the property. But Mr. Gavrilov himself

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

finally found his voice and now promises that, beginning on 30 March, the depositors will be settled with gradually, he only asks them to "show restraint, to give him the credit of their confidence."

Alas, the people can no longer give the credit of confidence to anyone. No one undertook to insure their deposits, and indeed, even this form of protection is unreliable right now. The state is "washing its hands of the matter," even though it is the one that began the fraudulent process.

In December of last year, the Duma passed a Law "On Restoring and Protecting the Savings of Russian Federation Citizens," which was approved by the Federation Council on 20 January. The President vetoed it, though, and returned the law for additional work. Few people doubted, however, that it would pass just like that. After all, this question was debated as far back as the old Supreme Soviet, came up repeatedly and was successfully used by candidates for deputy during the pre-election campaigns, but something was always found that prevented the return of the money.

I will remind you of the essence of the matter. Liberalization of prices depreciated the savings of the citizens. The budget has not accumulated the trillions that it would take to index the deposits. The idea of the Duma law, stopped by the President, is to transfer this tremendous sum to the state debt and clear it gradually by means of funds obtained in the course of the second stage of privatization. For example, returning the money in the form of shares in enterprises which are for the time being in the hands of the state, in a process of various settlements for the population.

Having imposed the veto, the President nevertheless agreed with the need to restore the savings of the citizens, but he suggested forming a commission to finish working out the law, with the participation of the government and the RF Central Bank, and bringing it into conformity with the RF Constitution, the Civil Code and other legislative acts. In general, the rejection was fundamentally proven. One thing was clear to the population, though: both Mr. Gavrilov from Stayling and the state were asking them "to show restraint and grant the credit of confidence." Here, alas, there is no difference between the unscrupulous entrepreneurs and the state.

Just why are we indignant when, for example, the Volgograd Russkaya Nedvizhimost Finance Company or such a seemingly sound bank as Agroprombank, ask (or else force) the investors to wait? We are alike defenseless before the state and before the commercial firms. Indeed, we are still hooked on the promises of Sergey Mavrodi from MMM, who continues to promise communism in a country taken separately. It is clear that for the basic mass of Russians, this is for the time being the most intelligible future.

Having paid well for newspaper space, Mavrodi wrote: "... Meanwhile, if everything were normal, if they would simply, and ultimately, not hinder me so actively, today's rate of exchange (of MMM shares—N.A.) would already equal several millions. Just try for even a minute to imagine it! We would be living in a completely different world right now!"

It takes your breath away, when you imagine.... Apropos of "hindered," the advertiser is, in a way, correct. Really, they announced to us five years ago that we were living under conditions of a market economy, but so far no legislative base has been created in the country for entrepreneurial activity, especially on the financial market. The authorities make sporadic attempts to "hinder" someone specifically. Which naturally suggests to the citizens ideas that are not nice—about corruption, lobbying and other negative phenomena.

At the end of last year, the controlling organs, on an oblast scale, of two firms working with the deposits of the population encountered an armed volley in "the media": Ob-Invest and Orion-Invest. Moreover, when these firms were still settling accounts with the people in a normal way. At Orion, for example, although violations were found, no ban on activity followed. Its prestige, however, thanks to the publicity in "the media," was basically undermined. Naturally, the depositors rushed to get their hard-earned money. Since this happened all at once, the firm had a catastrophic shortage of ready cash.

Having come up against the rush of demand, Orion found itself in a dilemma: either pay everyone and shut down the firm, or temporarily stop payments. In this situation, it made a decision which, although severe, was, in the opinion of specialists, the only correct one: stop payments until 1 March. Today lists with the numbers of the agreements and the order of priority in receiving money have been put up at all the receiving centers. This step was not decided on out of good practical experience. Nevertheless, it is clear to any economist that the potential accumulated in 4 years of work (Orion had 20,000 square meters of trade and production areas) could quickly collapse. It would take years to create a new one.

Orion's management also suggested that the depositors be patient now, so as not to lose in the future. The firm is now trying to "legalize" its activity, that is, to bring it into conformity with the new legislative basis. Sergey Pechenkin, chief of the Department of Interaction with Financial Institutions of the Oblast Administration, appearing on local television, confirmed this fact. Indeed, the application for a license was submitted to the oblast Finance and Tax Policy Administration almost a month ago. There are three joint stock companies of the open type, created on the basis of the trade-financial group, at the organizational stage today: Orion-Soyuz (all the TFG assets are accumulated here), Sibirskiy Benzin and the Orion Investment Company. Orion-Investment depositors can become shareholders if they wish.

The oblast administration gave approval to the Orion TFG for construction, in our oblast, of an oil refinery with a capacity of 1 million tonnes of petroleum products a year. There is already a technical-economic basis for this project. The estimated cost of the construction is over $20 million.

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

Participation of foreign capital in this program is not ruled out, and it goes without saying, it is a great consideration for domestic investors.

Orion promises to satisfy the needs of Novosibirsk Oblast for fuel, and also to create a basis for carrying out a "transit" project—organizing a network of filling stations on the entire length of the trans-Ural route. The fill-ups will be carried out by credit cards.

The Orion TFG is at least drawing the curtains a little, as far as the laws of commerce permit. This firm was set up in 1991, and today it includes 17 firms with the most varied spectrum of activities. Orienting its investments toward the Novosibirsk Oblast economy is important in principle for TFG. About 80 percent of the production and construction programs are carried out here.

Orion has major real estate: the unfinished building of the former oblast printing office (Gusinobrod housing area), which the group intends to turn into a major exhibition complex; the training block building at the rural construction combine (Kirovskiy Rayon), where the engineering-construction center of the Orion TFG is housed, and a restaurant and a bar in the Snegir trade complex. At least, the group and its real estate is located on the territory of Novosibirsk Oblast.

Here I come right up to an idea which should probably be a guideline when investing spare funds in an enterprise. It is still best to entrust your money to firms which use it for real projects here at home. Right now, for example, investments in housing construction are in popularity among the population. Sibakademstroy is at present actively drawing in the funds of the population and selling its own bonds, which increase in value in proportion to the exchange rate of the dollar, and are guaranteed by square meters or centimeters of apartments under construction. I personally bought a few shares, guided by the fact that in any case my money would be put to use for apartmentless Novosibirsk inhabitants.

The municipal bank has stepped up its activity on the housing market. It is secured by the guarantee of the municipal council, that is, by the municipal budget, which is, unfortunately, empty, but it is municipal property.

Viktor Tolokonskiy, mayor of Novosibirsk now propagandizes, at every convenient opportunity, the idea of constructing housing using the funds of the investors, including physical persons. The municipal council intends to issue its own securities, for which it will borrow from the population, for the same purposes.

The time is probably coming for more realistic plans. Indeed, the people are becoming more prudent, having survived being shaken out of their shameless deception. It would appear that the inevitability of punishment has begun to loom somewhere up ahead. The state is beginning to abandon the ideas of free entrepreneurship in the spirit of "as much as you can swallow." Aleksandr Khandruyev, deputy chairman of the RF Central Bank, recently spoke out in favor of a moratorium on setting up new commercial banks in Russia: "... The insolvency of a potential commercial bank is fully determined by the insolvency of its founders...." Today the problem of stiffer requirements for newly opened banks has become extremely urgent, since quite a large number of insolvent ones, "casting a shadow on the entire Russian banking system," have accumulated among them. I will add my own comment, that the unscrupulous activity on the financial market has in general thoroughly undermined the faith of potential investors, and they have begun to put their hard-earned money into modern "long stockings,"—to purchase foreign currency. This means that we are unintentionally, but actively helping foreign powers, by undermining our own economy.

Several punitive measures have recently ensued, which were called upon to inspire hope that the punishment for the deceivers would inevitably come. Here is a report on the Vostok Bank, a branch of which is located in our area, in Novosibirsk, and owes its depositors a great deal: "The Presidium of the Supreme Soviet of Bashkortostan, in accordance with a written statement of the procurator's office of the republic, has given its approval to institute criminal proceedings against Rafis Kadyrov, RB people's deputy, chairman of the board of the international Vostok Joint-Stock Bank." Indications of crime are perceived in the actions of the banker which, in plain language, are characterized as deception and breach of confidence.

By the way, about confidence. The people in our area, as before, have a trustful attitude toward advertising, and the advertisers aim at by-passing the law by means of every possible verbal contrivance.

The anti-monopoly administration of NSO has already more than once warned firms which give out, in advance, promises which they are objectively not in a position to fulfill. This is true of Stayling and Russkaya Nedvizhimost, the Struktur public association and others. A promise of high interest is not, as a rule, an indicator of a firm's prosperity and reliability. The opening of increasingly new receiving centers for funds indicates only that they want very much to get hold of our money. For us, quite the opposite is important: that they return it.

* Successful Enterprises Listed by Economy Ministry

954F1602A Moscow SEGODNYA in Russian 25 Feb 95 p 3

[Article by Aleksandr Bekker: "'Honor Roll' of Leaders in Capitalist Competition; Every Seventh Enterprise of Russia Has Adapted to the Market"]

[FBIS Translated Text] The apocalyptic predictions of collapse of Russian industry which were supposedly based on statistics do not entirely correlate with the real state of affairs at specific enterprises. Despite a significant decline in machine building, "Uralmash," for example, is emerging from crisis. Having found its niche in the production of oil drilling equipment, it has provided itself with orders for the next 5 years. In the "oboronka," [defense industry], which

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

had supposedly collapsed on all counts, the NPO [scientific-production association] "Mashinostroyeniye" (Chalomey Firm) is emerging, and has concluded contracts for the manufacture of the world's best solar batteries. It is also ready to sell "Salyut" spacecraft instrumentation, which is used to make higher quality photos of oil deposits than those available from American satellites.

In spite of the depth of the macroeconomic problems, the emergence of the enterprises from crisis is largely associated with the individual manager and his ability to adapt the enterprise to the demands of the market. According to the estimates of analysts, today 12-15 percent of the enterprises have adapted to the competitive struggle, and are leaders in their sectors. Another 66 percent of the enterprises comprise the so-called swamp, whose administration is scurrying about, seeking out credits, subsidies, and foreign economic privileges. And finally, 20-25 percent of the enterprises cannot be saved by anything. They are sure candidates for bankruptcy.

The tradition of the "honor rolls" has faded into the past together with the socialist economy. Nevertheless, it is difficult to reject the satisfaction of publishing a list of enterprises which are leaders in capitalist competition. This list was lovingly compiled in Minekonomika [Ministry of Economics], and kindly presented to the editors of SEGODNYA.

The Petrochemical Industry:

1. The **"Immunogen"** concern, which unites 11 enterprises, provided a growth of production of vaccines (against measles, cholera, hepatitis) by 13 percent in 1994 as compared with 1993.

2. The AO [joint-stock company] **"Ronis"** increased the production of magnetic tape and audio cassettes with a parameter of quality conforming to world standards, by over 50 percent.

3. The AO **"Ammofos"** (city of Cherepovetsk) in 1994 increased the production of phosphorus fertilizers by 5.4 percent as compared with 1993.

4. AOOT [joint-stock company/limited partnership] **"Polimerkonteyner"** (Moscow Oblast) expanded production of polymer material products by 23 percent in 1994 as compared with 1993.

Metallurgy:

1. The **Lebedinskiy GOK** [state organizational combine] is performing technical retooling of the combine at the expense of its own funds.

2. The **metallurgical combine in Nizhniy Tagil** is reconstructing the oxygen-conversion shop and the rail-structural shop at the expense of its own funds.

3. The **Magnitogorsk Metallurgical Combine** has placed the mill-2000 for production of hot rolled sheet stock into operation.

4. The **RAO [Russian joint-stock company] "Rossiyskiy nikel"** has retained the output of this metal at the 1993 level, and has increased copper production by 1.4 percent.

Machine Building:

1. The **Moscow "Metallist" plant** has used its own funds to develop production of equipment for underground repair of wells, which previously was purchased in the USA and Canada.

2. The **Gorky Automobile Plant** has developed production of and manufactured 12,000 "Gazel" small trucks in 1994, which are increased demand.

3. The **Demikhov Machine Plant** has produced the first Russian electric trains, which were previously purchased in Latvia.

4. The **Tversk Railroad Car Plant** has organized the series production of compartment passenger railroad cars, and may fully ensure the demand of Russian railroads for them. Previously such railroad cars were purchased in Germany.

5. **"Uralmash"** has developed production of unique mobile drilling rigs, which have no analogs in the world. They do not require retooling in going from one well to another, which is particularly important for development of the Yamalskiy deposit and the gas deposits of Western Siberia.

6. The **AO "Tverskoy ekskavatornyy zavod"** ["Tversk Excavator Plant"] has developed five new models of hydraulic excavators with wheel as well as caterpillar drive, with increased parameters of operating equipment.

The Defense Complex:

1. **"Uraltransmash"** has completely fulfilled the state defense contract for production of modern self-propelled ordnance.

2. The **NPO "Soyuz"**, on the basis of dual technologies, has developed and assimilated the production of high-energy and ecologically pure rocket fuel for launching commercial satellites.

3. The **"Holding Company 'Leninets' in St. Petersburg** has developed the manufacture of gas pumps for non-cash accounting with the consumer, which were not previously manufactured by domestic industry.

4. The NPO **"Luch"** (Moscow Oblast) has developed the production of leiosapphire (monocrystal of aluminum oxide), necessary for modern laser technology, instrument making and medicine. It is in demand not only in our country, but also abroad—in the USA, Japan and Switzerland.

The Food Industry:

1. The **Togliatti Meat Combine, AO "Tsaritsyno," AOOT "Cherkizovskiy Meat Processing Plant"** (Moscow), and the **AO "Yekaterinburg Meat Combine"** have continually increased their output of high quality sausage goods in 1994.

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

2. The AO **"Factory imeni Babayev," AOOT "Udarnitsa," AO "Red October," AOZT "Rot-Front," Starooskolskaya Fabrika,** and the **"Konfi" firm (Sverdlovsk Oblast)** have increased their output of confectionery products.

Light Industry:

1. **"Reutovskaya manufaktura"** (Moscow) has successfully assimilated production of textile fabric from catanized flax.

2. The **Serpukhov Leather Plant** is using its existing capacities to expand the production of competitive (on the domestic and foreign markets) leather goods.

3. In Vladimir Oblast, **"Karabanovskaya manufaktura"** has developed the production of wide-format fabrics which are in increased demand in the country and abroad.

4. **"Parizhskaya kommuna" (Moscow)** has expanded its output of quality footwear.

5. The enterprises of Nizhegorosk Oblast are increasing their relative share in meeting regional demand on children's clothing.

Agriculture:

In Vyselkovskiy Rayon of Krasnodar Kray, on the basis of the inter-farm cattle-raising complex, the **"Agrokompleks Vyselkovskiy"** has been created. Its complement includes 19 agricultural enterprises, including 3 poultry farms, the AO "Mezhkolkhoz-sovkhoz-sad," a mixed feed plant with mill, a shop for production of groats, a meat processing shop, a shop for production and bottling of vegetable oil, two grain elevators, and two food stores. The creation of Agrokompleks made it possible to reduce expenditures for receiving, drying and storing grain in elevators and at the mixed feed plant to 12,000 rubles (R) per tonne, as compared with R24,000 for grain elevators operating independently, and to increase the effectiveness of agricultural production.

The **"Kumir"** firm (Ivanovskiy Butter-Fat Combine), increasing its capacity for processing oilseeds from 80 to 400 tonnes per day, is creating its own raw material zone, cooperating by direct agreement with 554 agricultural goods producers in 21 regions of Russia. In 1993, the firm purchased 32,300 tonnes of oilseeds from them, primarily rapeseed. The demand for raw material in 1994, with consideration of the step-by-step increase in the processing capacities, comprises 169,400 tonnes. The purchase of the raw material is performed through credit resources at contractual prices, guaranteeing the producers no less than 50 percent profitability of production according to the industrial schedules corrected at the time of harvesting. At the present time, the firm has no credit indebtedness to its raw material suppliers. Advance purchases of oilseeds have been made in six oblasts of the Russian Federation for a sum of R7 billion.

* Report on Moscow Currency Trading

954F1589A Moscow KOMMERSANT-DAILY in Russian 24 Feb 95 p 7

[Unattributed article: "The Dollar Is Still Losing to the State Short-Term Bond"]

[FBIS Translated Text] **The growth rate of the market exchange rate for the dollar is still quite stable. Between 16 and 23 February the dollar exchange rate in the Moscow Interbank Currency Exchange rose 114 points (2.7 percent), reaching 4,407 rubles to the dollar yesterday. During the same period in the previous week the dollar exchange rate rose 123 points (2.9 percent). The controlled development of the situation in the Moscow currency market does not encourage active operations.**

Yesterday's MICE trades were marked by more lively nominal activity in the exchange. In particular, the demand for foreign currency was 48.72 million dollars higher than in earlier trading sessions and amounted to 125.18 million dollars. The volume of initial sales requests grew more perceptibly: The supply of currency increased by 61.07 million dollars and reached 113.89 million yesterday.

The slight reduction of the difference between demand and supply (yesterday the indicator was 17.32 million dollars, as compared to 29.67 million a day earlier) was the immediate cause of the slower rise of market quotes. At yesterday's session the dollar rate rose 23 points (as compared to 27 points in trades on Wednesday) and was recorded at R4,407/$1.

As always, the Central Bank played the main role in covering the negative difference in trades. The actual level of activity by dealers from commercial banks, however, is extremely low. This is particularly evident from the fact that although the gross sales volume rose to 125.18 million dollars (an increase of 51.71 million), the actual volume of operations—net turnover—was only 7.29 million dollars (an increase of 2.64 million over earlier sessions).

The calm and smooth development of events in the Moscow currency market is reducing the appeal of currency operations with the dollar to banks. Furthermore, it is surprising that even the slight increase in the growth rate of the dollar exchange rate, which was allowed this week by the Central Bank as part of its total control of the currency market, could not compete with the yield on alternative instruments in the financial market, primarily state short-term bonds. From this standpoint, it is quite natural that banks conducted OTC operations yesterday at rates exceeding current market quotes by an average of 10-12 points. For this reason, we can assume that the daily rate of increase in the market exchange rate of the dollar will either rise steadily or at least stay the same in the near future.

The exchange market for the German mark is still much more dynamic. The results of operations with the mark are affected by the absence of stringent control by the Central Bank. In particular, the abrupt rise (80 points) in the exchange rate of the German mark in MICE trades on Monday resulted in the decline of quotes by 35 percent the next day. Although the exchange rate of the mark displayed a steady rise in subsequent days (the equivalent value of the mark in yesterday's trades was R3,028/$1, this market has not become any less speculative. The fluctuations in the exchange rate of the German mark last week produced daily earnings of 1.2 percent, which is more than 430 percent per annum.

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

* Moscow Metro Financial Woes Cited

954E0593A Moscow OBSHCHAYA GAZETA in Russian No 7, 16-22 Feb 95 p 2

[Article by Natalya Boyarkina, under the rubric "Underpinning": "The Metro Is the Best Feeding Trough"]

[FBIS Translated Text] **Three trillion (3,000,000,000,000) rubles have been allocated from the state budget for the support of Russian metros. According to rumors, this became possible at the personal instruction of Boris Yeltsin, who received a collective letter from metro construction workers. The message says that, if financing for this organization is cut, 15,000 workers will lose their jobs. It looks like our country's metro is the most expensive in the world.**

Approximately two trillion of the three allocated will be used for construction of the metro in Moscow.

"The only offensive part is that a colossal portion of the money will be eaten up simply by wages for workers, who will be building the underground for a painfully long time, using long since outdated technology. Much more could come of this money if it weren't for Metrostroy's monopoly on metro construction," explained Nikolay Smirnov, director of the information center of the Russian Tunnel Association.

It turns out that the most expensive metro is being built right in Moscow. One kilometer of a two-track metropolitan in the FRG costs at most US$90 million, in France S$45 million, in Cairo US$26.5 million, in China (Shanghai) US$21 million, in Venezuela US$24 million, and in Moscow 140 (!) million "greenbacks."

However, in this last instance the costliest to build is not the best.

Real construction times almost never coincide with projected ones. Sometimes this is due to market considerations. The longer you work, the more you get paid. So that the thesis about productive labor, the acquisition of efficient equipment, and investing funds in the creation of new technologies has not gone beyond reports at meetings.

For example, the metro construction workers have a clever machine from the Weiss und Freitag firm (FRG). It bores a tunnel under the earth at a speed of 500 meters a month. With its help, our workers dig through only 60. Is the soil under Moscow harder? No, our technological disciplineis simply softer. This "discipline" forces us later to throw the lion's share of the money into unfinished projects: to eliminate leaks and bulges in concrete where they shouldn't be. They were even restoring the 25-meter wall between Bibirevoye and Otradnoye, which collapsed, before it was put into use, fortunately.

The Germans are eager to help us build our metro. With their characteristic pedantry they have calculated that their technology will allow the work to be cut by 200-250 percent, the cost by 400 percent, and the time to put the tunnels through by a factor of two. I am purposely not naming the firm so that the newspaper cannot be accused of advertising for money.

Say the initial section of the future Solntsevskaya line from the Park Pobedy station to the Moskva-Siti station, about three kilometers long, takes Metrostroy 90 months and costs US$482 million. For the Germans it would cost US$255 million, and they promise to have it done in 39 months. The German firm does not intend to take jobs away from Russia. Moscow metro construction workers will be working, too, and they will be taught to work with the new machinery. I'm afraid, however, that no one will be able to tell the difference. The practice of budgetary financing for the metro is slowing scientific progress. Competitors simply will not be let in because then the feeding trough for Muscovites—builders and supervisors—would definitely be pushed away from the metro construction workers.

* New Financial Communications System to Be Developed

954F1621A Moscow IZVESTIYA in Russian 2 Mar 95 p 2

[Report by IZVESTIYA correspondent Yaroslav Shimov: "Russia's Banks to Receive Unified Communications System to Exchange Information"]

[FBIS Translated Text] **The Russian Financial Telecommunications Association (SFT) and a number of foreign firms have signed an agreement to begin work on establishment of a new system for financial communications. It may become the country's first large specialized network for the exchange of information between financial institutions.**

There are now several telecommunications networks for general use operating in Russia (Sprint, Infotel, Rosnet, and others) which many banks also use. However, experts believe these networks are not in a position to take into account the numerous features of banking technologies. Moreover, the system for exchanging financial information still has no uniformity, which makes life difficult for many banks. Mainly the banks in Moscow and St. Petersburg are linked to the "Swift" international telecommunications system, but there are no grounds to assume that this network will be actively developed in the CIS' territory in the near future.

According to the originators of the new project, which has received the name "Global Financial Telecommunications Network" (GFTN), they intend to establish in Russia what already exists in the United States, for example—a unified electronic system, with the help of which banks can exchange information and work with clients with maximum speed and security. In the first stage, estimated to cost roughly $2 million, it is planned to create a network within Moscow and Moscow Oblast; work here is to be completed in the spring. Later, if banks are interested, the GFTN may expand to the entire territory of Russia. A number of foreign firms—the Italian Olivetti firm, the American Hughes Network Systems (a subsidiary of General Motors), and the (Curry) Capital Group are taking part in financing the project. The overall cost of the project will depend on the number of users, but specialists estimate that it will be no less than $15 million.

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

* Arbitration Court Chief Yakovlev Interviewed

954Q0136A Moscow NOVOYE VREMYA in Russian No 6, Feb 95 [Signed to press 07 Feb 95] pp 18-19

[Interview with Russian Federation Supreme Arbitration Court Chairman Veniamin Yakovlev by NOVOYE VREMYA Correspondent Aleksandr Didusenko: "When Entrepreneurs Quarrel the Arbitration Court Has To Resolve It"; place and date not given]

[FBIS Translated Text] **What kind of institution is it? What is its place among bodies of state authority? NOVOYE VREMYA's correspondent talks with Russian Federation Supreme Arbitration Court Chairman Veniamin Yakovlev.**

NOVOYE VREMYA. There was a State Arbitration Service in the former USSR. There was malicious talk that the service was basically engaged in shifting money from one state pocket to another state pocket. How does the Arbitration Court differ from the State Arbitration Service?

Veniamin Yakovlev. The State Arbitration Service and the Arbitration Court have nothing in common except that the task of both was to resolve economic disputes between enterprises. Agencies of the State Arbitration Service were part of the system of state administration of state property and mostly resolved disputes between state enterprises, generally involving plan fulfillment, plan deliveries, and such. Their decisions did in fact transfer funds from one state enterprise to another.

Today there is no longer a single state pocket or unified state property. We have private enterprises, cooperatives, and joint stock companies with foreign capital. State enterprises that do exist are essentially cut off from the budget and have to rely on their own pockets. In this new situation, relations between them are much more complicated. The state can no longer regulate these relations the way it did before. The role of regulator could no longer be a state body but rather an objective and fair law enabling the entrepreneur to do business and defend his interests. But where? As a rule, these functions are provided by the economic court. Unlike the general court, it does not deal with criminal or civil cases but resolves specific disputes in the field of economics. This was the purpose of the creation of the system of arbitration courts in Russia and other republics of the former USSR. In Belarus, to be sure, it is called the economic court.

The name is not what is important. Unlike the State Arbitration Service, the Arbitration Court is independent of the executive branch. It also has the right to defend the entrepreneur's interests in cases of disputes with the state and its agencies, if they are acting illegally. And, sad to say, that happens often. So relations between the authorities and the Arbitration Court have changed radically. In the past, the executive branch could overturn decisions of the State Arbitration Service. Now the Arbitration Court can rule as illegal any actions by local and republic administrations which infringe on the rights of entrepreneurs. And the authorities have to reckon with that.

BUT THERE ARE RACKETEERS AROUND....

NV Nevertheless, an entrepreneur who finds himself in trouble often goes to racketeers for help rather than the court. Doesn't he think the court will be objectively fair?

Yakovlev I think that an entrepreneur **who is legally right** has a real chance to defend his interests in court. I repeat: as a rule he has that chance, although the system certainly does need improvement.

It's another matter that business in Russia today is by no means always blameless from the legal standpoint. When someone turns to criminal gangs for help he himself, strictly speaking, is committing a crime—generally to conceal some previous violation; he knows he won't win in court. But he only has to pay the rackets; racketeers don't care who's right and who's wrong.

NV But might not the plaintiff be deterred from going to Arbitration Court by the high fees—10 percent of the cost of the lawsuit?

Yakovlev Your information is out of date. The fees are considerably lower now. They may only be 5 percent maximum. And the bigger the amount of the lawsuit the lower the fee. If the suit is for a billion rubles or more, the fee will be about half a percent.

Moreover, if the complainant is not able to pay the fee the court can defer payments or arrange installments. And because in the long run the fee will be charged to the losing side, the plaintiff—if he's right, of course—is essentially exempted from the fee.

Let me add here that criminal gangs do not obey these relatively humane rules. Their only rule is, If you hire us you pay, if you can't pay, too bad for you. Not surprisingly, dealings with racketeers often end tragically for the entrepreneurs. And then their case is dealt with by the criminal section of general courts rather than Arbitration Courts.

THE COURT HAS RULED. WHAT NEXT?

NV But how are the Arbitration Courts' decisions enforced? Judging by the press, neither entrepreneurial organizations nor state bodies obey the law all that willingly.

Yakovlev There are various aspects to this. If the defendant has money in his account the decision can be enforced with no problem. Problems arise when the defendant has no money. If so, the ruling can be carried out by using the defendant's assets which can be sold to come up with the needed sum.

It is harder to implement decisions affecting state bodies. The old principle of the soviets' omnipotence is deeply entrenched in the consciousness of many administrators, even though the soviets and the principle have been gone a long time. We are analyzing the state of affairs today, and we know that the court decision enforcement service needs to be strengthened. It is weak today, represented by general court bailiffs who basically have very little real power to enforce court decisions.

NV Those poor people....

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

Yakovlev When you say that about people in the service of the state, it is the state that is unlucky. If the state does not have a strong enough service to enforce its decisions, it shows weakness. This has to be recognized and the weakness overcome.

Incidentally, we have prepared two draft laws, "On Enforcing Court Decisions" and "On the Bailiff Service"—people who will have both the power and the means to enforce decisions. Unfortunately, neither of these draft laws have been submitted to the Duma by the government.

BLANK SPOTS

NV Saltykov-Shchedrin once described the state of law in the Russia of his time as "the twilight of the laws." Law-making could not keep pace with the reforms of Aleksandr II. Is something like that happening now?

Yakovlev Yes. The question of just what our court system is has not been resolved. We have yet to formulate legislation on securities and joint stock companies.

NV Let's say a few dozen stockholders of MMM or Khopr create a stockholders' protection union, register it, and take their complaints to the company's board of directors. Or consider a dispute between the trade union, the entrepreneur, the enterprise board of directors, or the state. Who is going to arbitrate the dispute?

Yakovlev There are no direct answers to these questions. Legislation lags behind real life. We need to put a Civil Code into action soon along with other associated acts to make it possible to accomplish on a legal basis the difficult tasks arising in connection with the profound changes taking place in Russia's economy and society.

Meanwhile, legislation still lags. I repeat: we have yet to resolve the question of whether our court system should be unitary or divided into federal and local courts. In the draft laws we prepared concerning arbitration courts and the new arbitration procedural code we proceeded on the basis that the Arbitration Court system is a federal system, because the Arbitration Court in any oblast, kray, or republic reviews disputes between enterprises of the whole Russian Federation. If we divide up the court system and separate federal from local courts, the local courts cannot resolve such disputes. In addition, they will be dependent on local authorities.

We also need a more effective system to defend the interests of foreign partners of Russian business. Right now they have to take their complaints to the general courts or to commercial arbitration service in the Russian Chamber of Commerce and Industry. A case can be reviewed in Arbitration Court only if the foreigner has an agreement about this with his Russian counterpart. But for the foreign businessman the Arbitration Court is preferable. It is better prepared to more properly review cases of penalties, violations of contract terms, unlawful use of trademarks, and other very specific problems that come up in the world of business.

From our standpoint, and this is reflected in the new arbitration-procedural code, a foreigner must have the right to appeal to the Arbitration Court regardless of whether his Russian partner agrees to it or not. And, vice versa. This practice prevails all over the world.

* Labor Party Leader Views Russia's Economic, Political Prospects

954F1555A Moscow NEZAVISIMAYA GAZETA in Russian 22 Feb 95 p 3

[Article by Boris Kagarlitskiy, leader of the Labor Party and FITUR (Russian Federation of Independent Trade Unions) expert: "Economic Prerequisites Exist for Replacement of the Elite"]

[FBIS Translated Text] Persons in masks with automatic weapons produce a more spectacular effect than diagrams and tables with figures. After the special services organized a raid against security for the 'Most-bank,' initiating noisy internecine dissension at the same time, the banking crisis became political. Three months have gone by, but the row continues. General Korzhakov is frightening banker Gusinskiy from the Kremlin. The banker threatens to bring an action in court against the general. The newspapers are carrying fascinating stories about the terrible 'toughs' surrounding the president, harming business in every way possible. Government lawyers are looking for 'saboteurs' among the businessmen.

The 'politicization' of economic squabbles is a phenomenon characteristic of Russia today. The inability of ruling circles to find economic levers to resolve economic problems gives rise to the need for emergency political and administrative measures. At best, these measures only create the illusion of solving problems. The manageability of the country is declining, crisis follows crisis, and journalists, economists, and political scientists obtain interesting new topics.

The crisis in the stock market was marked by the entertaining maneuver of a spetsnaz [special-purpose team or representative] in the apartment of Sergey Mavrodi and ended with the great financial schemer's election to the State Duma. 'Black Tuesday' provoked disunity within the government and strengthened the influence of the special services. Now, against the background of reports of commercial banks' bankruptcy and problems, the political scandal surrounding the 'Most' group is playing havoc.

The rapid increase in banking and commercial capital during the years of Gaydar's reforms did not attest to their effectiveness in the least. Taking advantage of favorable political conditions, the young commercial capital in Russia, which did not pass through the necessary stages of maturity and development, turned out to be one of the predominant forces in society. The hypertrophied growth of new financial capital has not only had a negative effect on the country's economy, it has undermined the foundations for healthy evolutionary development of private enterprise itself. The financiers, who yesterday were on Komsomol committees or attempting to make their way in

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

the field of artistic creativity by looking for influential patrons, acquired a great deal of power. They lacked not only the capital, but the elementary business knowledge, to make use of it successfully (even if for their own interests). In this sense, the 'high' rate of initial accumulation also predetermined the instability of the foundation on which the new colossi stand.

Events of recent months have demonstrated the economic and political weakness of the new financial structures in full measure. The authorities, as well as the bankers themselves, have realized this. The first signs of weakness became apparent when Western banks began penetrating the Russian market. Compared with them, even our largest financial groups felt completely helpless. It is easy to guess that under 'free competition,' Russia's banking sector will quickly come under the control of Western capital. The same applies to investment activity by Western firms in the stock market. Unless they are subjected to administrative pressures, Western investors are capable of easily taking control of any part of the stock market in which they are really interested—and this has already been demonstrated in practice. After seizing certain positions in industry during the course of voucher privatization, Russian financial groups suddenly discovered that they would be forced out by Western competitors the next time around. This process was already begun in the second stage of privatization. As paradoxical as it may seem, the political instability and Western firms' temporary lack of interest in Russia because of this are holding it back, acting as protection for the domestic structures.

Taking the weakness of Russian banks into account, the Western financiers initially assigned them the role of dealers and subcontractors. But unexpectedly for their Wesatern colleagues, the Russian bankers are attempting to play the role of 'national capital' by seeking state protectionism. The reaction to this is increasing aggressiveness by Western structures.

Russian bankers are attempting to 'defend themselves' with the state's help. But they may lose in this case as well. Our people are lobbying and those in the West are lobbying. The Western representatives also have money and hundreds of times as much skill. Our people are appealing to the state, and so are the people in the West. This game may be a more severe loss than competition in a free market. Our people want protectionism. They will receive it, but in a form that will be repugnant to them. The spetsnaz at the doors of 'Most' are also a by-product of the 'special' relationships between the banks and the state, lobbying activity, and political games. But the worst is still to come, when finally a decision will be made on control over the financial market. Most likely as the result of all the efforts, lobbying, and counterlobbying, there will be a version of 'protectionism' in which certain Western structures will acquire distinctive 'monopoly privileges,' thereby winning a victory over the Russian bankers and their Western competitors.

A 'Russian cocktail' such as this formed out of protectionism, monopolism, arbitrariness, and a free market—this is the most likely result of any attempts by the current authorities to 'adjust the reform.' Consequently, by combining the flaws in all the possible approaches, the state is preparing itself and all of us for new radical upheavals.

They are demanding that the state protect the 'young domestic capital,' but how can this be done if they fleeced the state in the course of their initial accumulation and deprived it of elementary economic levers and ownership? Experts noted in the summer that 'creeping nationalization' of the banks had begun in Russia. They mentioned this when the Central Bank lowered the coefficient for calculating the interest rate on overdue centralized loans from 2 to 1.3. In fact, a question arose about writing off private banks' debts to the state, just as with industry and agricultural enterprises. The experts note that the banking sector may emerge from the crisis which has begun 'somewhat nationalized.'

One-time rescue steps only confuse the situation. Commercial banks' dependence on the state is being increased, but this cannot be said about manageability in the financial system. On one hand, there is nowhere to go without the state, but on the other hand, the ruling circles are not planning on open nationalization. The worst of the possible approaches is triumphant—state control without nationalization. Maximum authority is concentrated in the hands of specific officials in the financial area, but society does not acquire the opportunity to monitor either these officials or the banks themselves. The resources needed for investment cannot be concentrated and reorganization of the banking system is an empty phrase. The contradictions accumulate and tension increases. As well as the uneasiness of all sides involved in the next crisis.

It is easy to understand the bankers who attempt to secure themselves by 'fattening' one politician or another. Everyone knows that the Mostbank, the 'Stolichnyy' Bank and the Promstroybank are on friendly terms with the Moscow government and the 'Imperial' Bank is friendly with the Russian Government. Mr. Dubinin, the retired acting minister of finance, even found new work in the last bank cited after 'Black Tuesday.' The 'Nationalnyy Kredit' Bank and the 'OLBI' Concern were so close to 'Russia's Choice' that they even decided to form their own relationships officially: something unprecedented in our political games. And as the subsequent 'divorce' between Boyko and Gaydar showed, it was extremely ill-considered.

In order 'not to put all their eggs in one basket,' the financiers are now prepared to 'be friends' with several competing groups right away. But this naturally undervalues the 'friendship' of the bankers by making any 'mutual commitments' extremely conditional. The politicians always win in this game, and the 'moneybags' are suddenly realizing that they always lose. If the 'patron' of one bank or another turns out to be 'ahead,' he is prepared to help, but this help only reinforces the financiers' dependence on state structures. But if the bank loses its 'patron' or is linked with the losing side, it cannot avoid repressions.

The 'politicization' of the banks prepares them for nationalization. And spontaneously 'from below.' And the

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

banking circles are doing this themselves, without any compulsion. The weakness of Russian financial capital, it appears, cannot be overcome by individual 'rescue' measures of by 'friendship' with the necessary people: the many years of organic development cannot be changed by edicts from the president and decrees from the State Duma.

The inability of Russian financial capital to become a full-fledged ruling class was predetermined by the buildup of the new crisis in the system. It is fashionable now to write off all losses to the 'initial accumulation.' They forget at the same time that the merchants and bankers in the era of initial accumulation did not lay claim (and could not lay claim) to authority. Their business developed for centuries in the shadow and under the protection of a completely nonbourgeois state. Just as private business acquired the opportunity to develop during the period of our NEP [New Economic Policy] or today in China under the authority of the Communist Party.

Whether they want to be or not, today's Russian financiers are more and more like the 'royal' and 'princely' bankers of the late Middle Ages. This is capital 'politicized' to the highest degree which depends entirely on the favor of the authorities and on the privileges and commissions that are granted. The current entrepreneurial bourgeoisie in the West never grew out of such financial empires. On the contrary, they entered into a struggle with them everywhere sooner or later. After undermining the old system of management, the new capital in Russia could not create their own. As a result, there is an investment crisis, a budget which is coming apart, and corruption everywhere, which has essentially become a unified mechanism for rational adoption of decisions. But the state, which is closely linked with the new structures, has been forced to continually 'collide' with them instead of being their patron; without these 'collisions' the financial position of the authorities and their ability to control at least a little would be even worse.

In other words, the Westernized and 'liberal' authorities have been put into a position where they cannot survive if they do not strike their own periodically. This creates even more disenchantment with the authorities among businessmen. But attempts to replace the chiefs will not resolve the problems, in my view, just as attempts to outbid for one promising politician or another from the ranks of the opposition will not change the situation.

The financiers are more and more disenchanted by the authorities and the politicians, who seem 'unpredictable' to them. Big money does not rescue anyone or guarantee anything. The confused 'Western-type' politicians do not know what to do: support the unexpectedly 'darkened' president or join the opposition, thereby strengthening 'the reds.' The bankers do not know whom to finance and what point there is to all this. At the same time, they obviously are not prepared to work out a long-term strategy by sacrificing part of the capital for the sake of rescuing their structures and overall stabilization. When a serious crisis arises, it is more likely that our bankers will prefer to move to more developed countries, taking most of the money accumulated with them.

Nevertheless, the flight of capital is moving at full speed. It is already hard to determine where the chicken is and where the egg is: the flight of capital is urged on by fear of nationalization, but nationalization is turning out to be the only practicable method of stopping the flight of capital.

But while decisive steps are not being taken, 'creeping nationalism' is already under way, gradually combining that part of banking capital which the authorities can reach. Any serious anticrisis program, I am certain, will work only if as a first step the ruling circles decide to reinforce de jure what has already taken place de facto. But this is precisely what the current ruling circles will not do: for them to admit the failure of the existing forms of private entreprise is equivalent to a decision to disaffirm themselves.

All the qualities which were directly opposed to those needed for normal activity, both in business and politics, were required for success in Russia in the 1990-1993 period. This state of affairs was created not because of the 'specific nature of the country,' but the specifics of the situation, the conditions in the 'transition period.' The fuss about 'the postcommunist period' has now been replaced by the 'Russian capitalism' routine. There has been a kind of 'normalization,' but this noramlization is fraught with new instability itself. It is being revealed that all the elites are unfit for the very activity which they have monopolized.

Replacement of the elites in such situations is inevitable. Inasmuch as there are no counterelites (unlike tsarist Russia, where the revolutionary intelligentsia prepared for years to run the country), replacement of the elites will take place in the form of a succession of political shocks, collapses, 'black days on the calendar,' and purges, more like strife than a revolution. It will continue that way until a new system of government is born out of the chaos.

It would be logical to expect nationalization (tactfully called 'reassessment'of the fixed capital and correction of extremes in the spirit of Vladimir Polevanov's ideas) and attempts tc centralize financial resources (if not in the form of bank nationalization, then in the form of compuslory insurance deposits, state control over foreign currency accounts, and the like). And finally, an increase in the state debt used to patch up holes in the budget sooner or later will make an unpleasant choice between hyperinflation and semiconfiscatory monetary reform, combined with toughened currency control, inevitable. And the latter is clearly preferable, if only because after hyperinflation, when most of the public's savings will be gone, financial reform will take place anyway.

A 'mobilization economy,' state programs, ethics in service instead of ethics in personal success, and collectivism as the ideology for rescue—this is what will naturally grow out of the discord. An alternative to the chaotic scenario may be a partly controllable transition to these principles in the course of a general 'shift to the Left.' The current political elites are doomed: they will not be able to accomplish such a transition because of their incompetence, even if they want to.

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

*Duma Hearings on Anti-Inflationary Measures

954F1447A Moscow KOMMERSANT-DAILY in Russian 15 Feb 95 p 3

[Article by Boris Boyko and Vadim Bardin: "The Idea of the 'Gold Ruble' Is Immortal Because It Is Incorrect"]

[FBIS Translated Text] While the Budget and Finance Committee of the State Duma began the preparation of the federal draft budget for the third reading, two other Duma committees—on economic and on regional policy—decided to risk, once again in an open discussion, becoming convinced of the correctness of the anti-inflationary policy announced by the government. The parliamentary hearings "Anti-Inflationary Measures: Ways of Price Stabilization in 1995," with the participation of Economics Minister Yevgeniy Yasin and Tatyana Paramonova, acting chairman of the Central Bank, traditionally contained both elements of academic polemics and of political debates. The result was also traditional—the majority stayed with their view. The recommendations adopted by participants in the hearings contained an appeal to organize joint work by the government, the parliament, business circles, and trade unions, in order to search for ways of getting out of the crisis. It must be admitted that the appeal is not conspicuous for its novelty.

First Is First, and Second Is Second

The essence of the academic part of the debate is briefly formulated as follows: What is first and what is second—high inflation or a decline in production? Is it possible to fight them simultaneously, and are monetary methods suitable for this? Opening the hearings, Sergey Glazyev, chairman of the Committee on Economic Policy, as is his custom, stated that incorrect theoretical foundations of the economic policy being conducted were the main causes of inflation; in particular, the "primitive ideas of interconnections in the economy" and the belief that rates of rise in prices depend only on the dynamics of the money supply, not on the rate of money circulation, inflationary expectations, and cost inflation. According to him, to continue such a policy means to once again "step on the same rake that hits production."

Warding off the arguments of his old opponent (at the same time, agreeing that inflation is due to many causes), Yevgeniy Yasin insisted that a reduction in the budget deficit and in the money supply as the basic inflationary factors are the main, generally recognized methods of fighting against inflation. Nevertheless, he admitted the need for other measures as well; for example, effective investments and a structural nonemission policy. According to his own admission, the Russian Government pursued a monetary course in pure form for "no more than two or three months." According to Yasin, the experience of 1994 shows that the "Russian economy must go through the crucible of a tight budget policy." Under the present production structure, emission injections will help no one—production costs are high, and products are noncompetitive. As one could understand from Yasin's words, only the agro-industrial complex and the fuel and energy complex could expect government support.

It is gratifying that the minister of economics had a skeptical attitude toward the idea of the possibility of a simultaneous fight against inflation and the decline in production. He considered the proposals by his opponents to fight against inflation through a tax reduction, increase in customs duties, and conclusion of intersectorial tariff agreements "not very substantial." Yasin regarded the idea of a price freeze unacceptable.

Yasin's emotional speech was backed by the more reserved Tatyana Paramonova, acting chairman of the Central Bank, who made a somewhat unexpected admission. According to her, the experience of the Central Bank shows that there is no direct relationship between the money supply and production volumes. True, before this she stipulated: Of course, inflation is changing its nature. Whereas previously, there was a demand and cost inflation, now its level is largely determined by the money supply.

The lively debate could not do without Mark Masarskiy, who became a regular in the corridors of power. Having won the title of "nomenklatura entrepreneur," the chairman of the Conciliation Commission on the Treaty on Public Accord proposed an idea on a truly state scale: to introduce a parallel currency—"gold ruble" ("which melts in the mouth, not in hands," the entrepreneur noted with characteristic wit). Unfortunately, this idea was immediately debunked by participants in the hearings as unrealizable.

On the whole, the most interesting part of the hearings ended there, and only academician Nikolay Petrakov deserves a mention. After the duty of guiding the working scientific group of the Government Commission on Nonpayments was placed on his shoulders, the academician noticeably softened his evaluations of the cabinet's economic policy: "The nature of inflation is not in the errors of the government policy—this is a structural problem." Nevertheless, the general idea of his speech can be formulated as follows: In Russia the economy is not a market economy, and market tools are not applicable to it.

Duties Will Reach All Imported Goods

Yesterday's hearings were noteworthy not only for the lively theoretical debate. Economics Minister Yevgeniy Yasin announced government plans to increase import duties (see KOMMERSANT-DAILY of 9 February). Yasin stated that he "considers possible" an increase in the average rate of customs duties from the present ones of a little more than 10 percent (at a level of really collected duties of 5.6 percent) to 16 or 17 percent. At the same time, he came out for a reduction in customs duties, which at present exceed 30 percent, and the introduction of a minimum imposition of customs duties on all goods, including foodstuffs, at the rate of 5 percent, "not permitting any exceptions." Yasin admitted that the increase in the average rate of import duties exceeds GATT standards, at the same time, reminding the participants that Russia has not yet joined this influential organization. Thereby, the increase in import rates has different substantiations. Sergey Glazyev, chairman of the Duma Committee on

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

Economic Policy, sees in this the support of domestic production, which, ultimately, should lead to a reduction in inflation. However, Yasin, realizing that the whipping up of inflation will be the first consequence of the increase in rates, has his own plan, which has already been approved by the government. The rise in rates is of a tactical nature, creating a certain base for concessions on Russia's part in the course of entry into GATT/WTO.

Yasin's proposals have already encountered a sharp nonacceptance outside Duma walls. At a meeting of the Moscow Government, Moscow Mayor Yuriy Luzhkov expressed the opinion that an increase in customs duties on foodstuffs would lead to a sharp rise in the cost of food products. "The introduction of new duties means primarily the suffocation of big cities, such as Moscow and St. Petersburg," the mayor announced. According to his belief, Russia "today cannot feed big megapolises with domestic food resources."

* Gusev on Taxation System Policy

954F1575A Moscow ARGUMENTY I FAKTY in Russian No 8, Feb 95 p 5

[Interview with Vladimir Gusev, director of the GNS [State Tax Service], conducted by ARGUMENTY I FAKTY correspondent Pavel Lukyanchenko: "The Truth About Taxes"]

[FBIS Translated Text] **Some fear being summoned to this white marble building on Neglinnaya Street in Moscow no less than they feared being summoned to the well-known building on Lubyanka in former times. This is where the State Tax Service of Russia (GNS) is located, which strictly monitors the correctness of payment of taxes by each of us. However, while for simple Russian citizens the GNS is certainly not frightening, for many swindlers among the "new Russians" the very sight of this building evokes far from happy feelings. Our correspondent, Pavel Lukyanchenko, talks with Vladimir Gusev, the director of the GNS, who is in essence the tax minister of Russia.**

[Correspondent] 108 percent—that specifically is the figure which is always being cited by domestic producers when the discussion turns to taxes. In their words, if they pay all their taxes, then they will have to give away not only all their earnings, but also pay an additional 8 percent out of their own pocket.

[Gusev] This widely held opinion certainly does not correspond to reality. If they paid 108 percent, then no one would be able to work.

[Correspondent] But that is the reason why no one pays all their taxes!

[Gusev] The industrial producers are making incorrect computations. The fact is that part of the taxes relate to the production cost of the manufactured product, i.e., they are included in the price. And to say that these taxes are paid by the enterprise is entirely incorrect. It is you and I who pay them when we buy the products, and not the enterprise.

And how much does the producer himself pay? From a ruble of earnings received, the taxes comprise 42-45 kopeks. Approximately another 40 kopeks comprise the material expenditures, and 6-7 kopeks go for payment of the labor wage (a very low labor wage is our scourge). Another 7-9 kopeks remain as the profit for the entrepreneurs.

If we speak of the profitability of our industry—and this is the primary indicator of production effectiveness—last year it comprised 18 percent. This is a high level. In the developed countries they are happy with a profitability of 9-10 percent, and say that they have good earnings. Therefore, not everything is as gloomy as it seems.

[Correspondent] You say that our scourge is a very low labor wage. But if we increase it, then what will be left of the enterprise profits?

[Gusev] The labor wage is related to the production cost of the product. Therefore, it will not have a directly proportional effect on the profit of the enterpreneur. Of course, there will be somewhat less left for him. That means, it is necessary to reduce the material expenditures for production of the product.

I am not saying that the problem of the tax burden does not exist. It does. But the rates of our five basic taxes—the tax on profits, the value-added tax (NDS), the tax on income of individuals, the excise tax and the payment for natural resources—are at the level of many of the world countries. And then, the tax rates must meet the demands of the times. Not so long ago, the NDS in our country was in the amount of 28 percent. Now it has been reduced to 20 percent. Today our tax on profits is 35 percent, and it too can be lowered somewhat.

[Correspondent] The labor wage in industry really is very low. But they say that you—in the tax department—pay up to an average of a million per person.

[Gusev] I do not know where you got that figure. On the contrary, I believe that we do not pay our tax inspectors enough. With their premiums, it works out to slightly over 400,000 rubles (R) per person. At the same time, each inspector brings R170 million into the treasury per year. If we pay them even less, then who will work for us? As it is, last year they killed nine of our tax inspectors and blew up around 20 of our tax inspectorate buildings. We are experiencing a great exodus of highly skilled cadres, including also from the central apparatus. At the same time, the banks and financial structures are offering our people wages which are 10-15 times higher.

[Correspondent] And they welcome them there with open arms, because, aside from all else, they know all the secret instructions of your department?...

[Gusev] We do not have any secret instructions. All of them are publicized in mandatory order in the press, including also in our NALOGOVYY VESTNIK.

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

Salaries paid in the RF State Tax Service

Official duty	salary, rubles
Director	418,471
First deputy director	391,180
Deputy director	363,888
Head of administration, leading section	300,208 - 318,402
Deputy head of administration	270,186 - 286,562
Head of independent department, administrative section	245,624 -263,819
Deputy head of independent department, administrative section	221,061 - 237,436
Chief state tax inspector	218,333 - 236,527
Chief specialist	191,041 - 209,236
Senior state tax inspector	191,041 - 209,236
Lead specialist	163,750 - 181,944
State tax inspector	163,750 - 181,944
Economic advisor, consultant	245,624
Head of secretariat, assistant to director	245,624 - 263,819
Head of sector, reception center	191,041 - 209,236
Specialist, category I	127,361 - 145,555
Specialist, category II	90,972 - 109,166
Senior inspector	81,875 - 100,069
Inspector	63,680 - 72,778

Source: Ministry of Finance of Russia

[Correspondent] By your hand, our state tries to collect all taxes from the enterprises. But at the same time, the state itself is constantly delaying payments to these same enterprises by its indebtedness in paying for products and wages. Is there not a paradox here?

[Gusev] There is. But why did the state not settle its obligations on time in 1994? First of all, because these obligations were overestimated in compilation of the federal budget. They wanted to make a pretty budget, even though it was clear to all that the income which was provided in the budget would not be received. The decline in production turned out to be significantly greater than predicted, while the profitability and rates of inflation turned out to be significantly lower. As a result, the budget did not receive around 40 percent of the anticipated taxes.

[Correspondent] In the entire civilized world, the tax on enterprises, i.e., on legal entities, is several times lower than on individual citizens, i.e., on physical persons. Therefore, there people are interested in keeping their money in production, and not in their own pockets. Why do we not do the same thing? After all, directors in our country often ride in Mercedes of the latest models, while the workers do not see their wages for 2-3 months at a time.

[Gusev] I agree with the formulation of such a question. The system of taxation of personal income of citizens is our weakest point. Is it normal when the total annual income in excess of R50 million is taxed at a rate of 30 percent? And this may be R70 million a year, and R1 billion, and even R100 billion. And those who earn very much must also pay very much.

[Correspondent] For example—up to 90 percent per year?

[Gusev] Well, perhaps 90 percent is too much, but they should pay within the margins of 70 percent. And such proposals were introduced to the duma, but met stiff opposition there.

[Correspondent] It seems, there are only billionaires sitting there?

[Gusev] We do not have such information.

[Correspondent] The local tax departments have devised their own, sometimes entirely outrageous, taxes to replentish the local budget. For example, a tax on wearing a beard or keeping dogs.

[Gusev] In fact, the situation with the establishment of regional and local taxes today is worrying both the entrepreneurs and us. In a number of cases, taxes are introduced to the benefit of certain interests which, in our opinion, should not be introduced. For example, the tax on maintaining football [soccer] teams. We believe that the list of taxes which may be introduced locally must be limited at the federal level.

[Correspondent] Can you cite any of the scandalous cases associated with the non-payment of taxes by some well-known person?

[Gusev] We have some entrepreneurs, and very well-known ones at that, who have underpaid their personal income taxes by several billion. But, out of considerations of professional ethics, I cannot divulge their names.

Tax Police Official on Tax Evaders, Other Tax Crimes

954E0579B Moscow ROSSIYSKIYE VESTI in Russian 16 Feb 95 p 3

[Interview with V. Leskov, chief of the Inquest Section of the Department of Tax Police, by S. Vanin; place and date not given: "Tax Crimes. No One In the Dock..."]

[FBIS Translated Text] **Difficulties with the state budget occur due to various reasons. One of them is the dishonesty of Russian taxpayers. How is the fight against tax crimes being waged at present? That is discussed by Valeriy Leskov, chief of the Inquest Section of the Department of Tax Police, in an interview with ROSSIYSKIYE VESTI correspondent Sergey Vanin.**

[Leskov] The paradoxical nature of the situation is that we are discovering a growing number of tax crimes and violations, while the lawbreaker in most cases gets away virtually unpunished. In 1993 slightly over 600 criminal cases were initiated throughout Russia, whereas in 1994 that figure grew almost fourfold to 2,300 cases. As a result some 200 individuals were convicted.

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

You may ask, what about the rest? The February amnesty to a certain degree affected the results of the work. A significant number of cases however, were dropped by the investigators for various plausible reasons.

[Vanin] Therefore the fault for this lies with the investigative organs to which your agents transfer criminal cases that are initiated?

[Leskov] It is not in me to cast stones at MVD investigators or the procurator's office which were charged with the investigation. As a former investigator, I know very well that they are great workers, operating under a double or even triple load, taking into consideration today's shortage of specialists. For the most part it is not their fault that cases involving tax crimes are shunted aside, and eventually, covered in dust, they are turned over to the archives. It is possible to understand them and their supervisors who, in dealing with particularly persistent inquest personnel, think to themselves "Why can't you understand that we have unresolved murders, armed attacks and robberies, explosions, terrorist acts, and you come here with your taxes, and there is no making head or tail of them anyway." True, it is hard to make head or tail of them when there are just a few investigators conversant with the proper methods. That circumstance must be taken into account in the future as well.

[Vanin] Valeriy Sergeyevich, nothing can justify a situation in which a criminal remains unpunished. That will definitely untie the hands of criminals and cause incalculable damage not only to the economic security of the state, but to the moral fabric of our society. It is necessary to ring alarm bells and come up with certain proposals.

[Leskov] They have been made repeatedly, to the government, the State Duma, and the president. Many of the constructive ideas, however, presented by the Department of Tax Police of Russia are quite frankly being blocked by various government officials. In part, we proposed granting federal tax police agencies the right to conduct tax and certain expert criminal evaluations and creating a specialized investigative apparatus within its structure. Possibly borrowing the experience of some of the developed countries in organizing tax courts, which could take over the growing wave of cases in that sphere.

[Vanin] What happened?

[Leskov] Our principal opponents maintain that proposals of the Department of Tax Police purportedly contradict the overall concept of judicial reform, which envisages removing investigative organs from agency jurisdiction and creating a unified Investigative Committee of the Russian Federation. In that regard I will allow myself to sound a few cautionary notes.

First of all there are quite a few reasons for doubting the irreproachability of such a concept. Why is it that many countries with a developed market economy see no threat to democracy in the fact that 10 to 15 agencies have their own investigative organs? In the United States, for instance, whose experience we love to cite, even the post office has its own investigative agency.

Secondly, we are not opposed to the creation of a unified independent investigative committee. Everyone who is at all familiar with the state of affairs in the given sphere can see that years will be needed to realize the idea. With the present condition of the state budget one must question that such a possibility even exists because of the expense to society.

Thirdly, while the question of whether there is to be a unified investigative committee is being discussed, billions that could be going into the treasury are becoming the property of criminal groups. To lose time means aggravating the situation.

[Vanin] Was the Mavrodi case stymied for that reason?

[Leskov] Without a doubt. Let us say that one of the difficulties consisted of the fact that primary documents reflecting the financial activity of certain structures of the MMM were destroyed or never existed at all. In that connection, the Scientific Research Institute of Legal Evidence, utilizing methods employed in the thirties, which developed under conditions of a planned economy, regulated by the government, was unable to furnish a conclusion regarding the concealment of profits from taxation in those structures. At that time, in order to assist in the investigation, a panel of experts was created on the initiative of the Department of Tax Police of the Russian Federation, consisting of leading practitioners and scientists in the field of the economy, finance, and law, as well as specialists in tax legislation from the Ministry of Finance, the State Tax Service, and the Finance Academy of the Government of the Russian Federation, and certain institutes. On the basis of existing information, banking data, supplements to balance sheets, and the like, the method of balance sheet modelling was used. As a result, experts came to the unanimous conclusion that tax evasion had definitely taken place in this case. The method used in the expert analysis was recognized by authorities in the field. In the criminal case, by the way, there is proof of the fact that Mavrodi counted strongly on the probability that it would be impossible to conduct an expert investigation because of the lack of primary documentation.

[Vanin] What is now required in order to make a final decision on that case?

[Leskov] I think that what is lacking now is some daring. I want to be understood correctly: We are not talking about sending Mavrodi and all the other tax dodgers to prison tomorrow, or even better, today. We are talking about each one of them being held strictly accountable under the law. I will give you the following example. The Pervomayskiy Rayon Court in the city of Murmansk convicted Stanislav Kushnir, director of the branch office of the St. Petersburg Unified Collegium of Lawyers, for nonfulfillment of certain requirements set by the State Tax Service. A fine in the amount of R1.5 million was not such a big penalty. What is important to us is the inevitability of punishment for violation of the law in itself.

I have already noted how many difficulties had to be overcome in order to conduct expert examination of the

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

Mavrodi tax case. This, however, is a special situation, and the accused stands out among the others. If this were a case involving some little-known entrepreneur, let us say, from Chukotka, it would have been highly unlikely that we could have recruited such authoritative and highly skilled forces.

[Vanin] By the way, both should be equal before the law.

[Leskov] Exactly. One cannot help but recall the case in the tax investigation service of the United States when the former treasurer of the United States, Catalina Villalpanda, whose signature appears on American currency issued between December 1988 and April 1994, appeared in the dock. She was sentenced to four months in prison for tax evasion. The tax evader, if his guilt is proven, cannot be saved either by achievements as a high official, by the thickness of his pocketbook, by his mandate as a deputy, or by his popularity as a stage or football star.

* Deterioration in Living Standard, Unemployment on Rise

954F1589B Moscow TRUD in Russian 15 Feb 95 p 3

[Article by Albert Kozlov: "We Do Not Promise Full Employment; Unemployment in Russia: Myth and Reality"]

[FBIS Translated Text] As I passed the entrance of a well-known Moscow plant, I noticed a sign on which a list of occupations had been inscribed in oil paint, apparently about 10 years ago, under the concise heading "Help Wanted." A stray mongrel sniffed at the sign, which was surrounded by trash and discolored by mud and snow, lifted his leg and sprinkled the sign, and ran off to tend to his canine affairs....

Some figures attesting to the state of public employment at the end of 1994 were cited at a recent "roundtable" held by the RF President's Council on Social Policy to discuss unemployment in Russia. According to these figures, of the 74.9 million able-bodied individuals in Russia—representing half of the total Russian population—69.6 million (92.9 percent) are employed in the economy, and 5.3 million (7.1 percent) are unemployed. Only 1.6 million of these are officially registered with agencies of the employment service. The number of citizens with only part-time jobs was estimated at 4.8 million. In other words, the potential manpower that was not being used in Russia at the beginning of 1995 was equivalent to 10.1 million people, or 13.5 percent of the able-bodied adults. According to other data, the rate of unemployment here is much higher—as high as 20 percent.

If we exclude the unemployed 20 percent from the economically active population (50 percent of the country's total population), we are left with 30 percent of our citizens who are feeding Russia, maintaining its dwindling industrial potential, creating physical assets....

One of our politicians assured the public in a televised statement last fall that unemployment in Russia is a myth, and that it is being overstated by those who disapprove of economic reform. What a fine myth! No one could ever conceive of a grimmer and more unpleasant reality for the state.... And this reality should be a matter of concern primarily to those who have promised to govern the country and take care of us.

When I mentioned this to the experts, they corrected me: The people who are governing Russia today, they said, never promised full employment. Take a look at the present Constitution of the Russian Federation; it does not say a word about the Russian citizen's right to work. The document only stipulates the freedom of labor.

But what about the Declaration of Human Rights, which does record the right to work? This document was signed by the USSR back in 1948, and Russia inherited its international commitments.... It makes no difference! The authors of the present Constitution either did not know (which is difficult to believe) about this "minor detail" of the declaration, or deliberately "forgot" it. In this way, the Russians lost their right to work. The state relieved itself of the legal responsibility for public employment.

According to B. Rakitskiy, head scientific associate at the Employment Institute of the Russian Academy of Sciences, the laws we have today are destroying the economy and society. One out of every four Russians has suffered from the reforms. In the past year the standard of living declined by another 14 percent....

Some academics and politicians believe that this is a natural consequence of reform. They make references to Western experience: Unemployment is inevitable in the market economy! I agree, but that is not the main issue. Is this experience completely applicable to us?

According to Director A. Kotlyar of the Central Labor Institute, "their unemployment rests on a different socioeconomic basis." They have economic limits on the expansion of employment. The commodity market in the West is full to the brim, and people there earn high wages and have a high standard of living. The expansion of employment under these conditions results in the overproduction of goods and services, with all of the ensuing consequences.

Unemployment here is based on economic collapse and inflation. If goods (mainly Western goods) accumulate in the stores here, it is not a sign of market oversaturation, but of exorbitant prices. The best evidence of this is in food consumption. We cannot meet the required dietary standards for anything but potatoes and bread.

In contrast to the West, we have no economic limits on the expansion of employment. We could create a colossal number of jobs. All it would take is a new investment policy to stimulate the investment of capital in areas other than trade....

Our life today is a series of compromises between the economic and social spheres. Hidden unemployment is a good example. Around 8 million people are considered to be employed and are receiving some kind of wage, but they are not actually producing anything. This is how a high rate of employment—or, more precisely, the semblance of employment—is being maintained artificially in our

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

country and how unprofitable production units are being kept afloat: More than a third of our enterprises have been operating at a loss for a long time. Only around 800 of them have declared bankruptcy, although some estimates put the number of bankrupt enterprises at a much higher figure—1,700! Meanwhile, labor productivity in Russia has declined by 40 percent recently, but the number of employed individuals has been reduced by only 4.5 percent. As A. Kotlyar remarked, the national economy has become a charity.

How much unemployment can we expect in the future?

Experts predict that the present official rate of 5-7 percent will at least double or increase 2.5-fold by the end of the year, and the number of new jobs will be 2 million at the most. This does not include the half a million able-bodied people from CIS countries who will be moving to Russia, according to Federal Migration Service forecasts, in 1995. Incidentally, according to an FMS spokesman, the state cannot afford to offer these people job placement services.

Where will the new jobs be created? Most of them will be in the fuel-energy complex, the aerospace industry, and housing construction, and there will also be some new jobs in the communications sphere. Obviously, this leaves little room for maneuver....

Although the state has given up its responsibility for the placement of Russians in jobs, it cannot ignore the problem completely. The RF President's Council on Social Policy has drafted a set of recommendations for the support of public employment.

There is no reason to recite the whole document here, but I do have to stress that it has the "fundamental" goal of "establishing the necessary conditions for high, stable, and effective employment at the highest possible level in the transition period." According to the document, this will take a huge group of measures, from the resolution of certain specific problems to the drafting of legislation and standards to secure an employment policy. The goal, quite frankly, is not that realistic. The state of our economy and the absence of funds in the treasury automatically arouse pessimism. Of course, we could restore the constitutional right of citizens to work and solve several other problems, but putting the constantly rising rate of unemployment under state control and adjusting this rate will require huge amounts of money. In essence, the state is incapable of offering even the presently jobless 5-7 percent of the able-bodied population support on the most modest scale.

Kama Motor Vehicle Plant Strategic Development Plan Viewed

954E0582A Moscow ROSSIYSKAYA GAZETA—BIZNES V ROSSII in Russian 17 Feb 95 p 2

[Article by Dmitriy Mikhaylin, RG correspondent: "KamAZ: Investments with Insurance (KamAZ Intends To Make Up Time, After Having Pushed Off from Foreign Loans)"]

[FBIS Translated Text] As far back as 1992, the board of the KamAZ AO [Joint Stock Company] adopted a program for strategic development of the enterprise. The result of its realization should be the creation, by the beginning of the next millennium, of a firm producing goods that are competitive on the world market, with shares worth $10 billion on the exchanges. At the same time, the yearly profit should be $1 billion, and the productivity—at least 100,000 motor vehicles a year (last year, KamAZ produced about 25,000 vehicles).

Finances. The first stage of the program's realization is financial stabilization of the joint stock company. This is the "trademark" for 1995 at KamAZ. Before 1 July, the enterprise is to arrive at a level of profitability (today the production cost of a KamAZ truck is higher than the sales price), and by 1 December is to earn $350 million and clear its debts completely. The business-plan worked out by KamAZ specialists, which passed an international expert examination, is valued at $3.5 billion. The American KKR firm will grant the motor vehicle plant a loan for this amount (which is in itself unprecedented).

Within the framework of the agreement, a so-called investment fund No 1 is being set up, in which KamAZ deposits 33 percent of its shares. Fifty-one percent of them are earmarked for the foreign partners. In accordance with the decision of the board of the AO, however, they will be able to purchase only 6.6 percent of the shares from this amount each year, and what is more, only if the entire year's program is fulfilled. In the last analysis, the foreign partners will be able to acquire no more than 17 percent of the KamAZ shares. In the year 2002, however, when all the planned indicators have been achieved, the foreigners will obtain the right to purchase another 16 percent of the KamAZ shares at half the price, as a bonus for good work.

Nikolay Bekh, general director of the AO, feels that by this time the enterprise will be standing soundly on its own feet and will be able to pay back painlessly all the loans recruited now.

Production. It is not all that easy to modernize the KamAZ production facility. Designed for the mass production of inexpensive motor vehicles, it is based on rigid technological lines.

The technological process is now being broken up into several series. For example, the plant will have four or five engines, which will make it possible to assemble two types of power units of the American Cummins Company, along with the traditional KamAZ engines.

In addition to Cummins, KamAZ has set up joint ventures with the German firm Zahnrad Fabrik (transmissions), the American Rockwell International (front and rear cross members), the Dutch DAF (modernized driver's cab) and a number of others. It is choosing the best partners. In practice, it is not a question of modernization, but of a completely new vehicle, meeting world standards. At the same time, in Bekh's opinion, KamAZ is in no way turning into an assembly line riveting "our" vehicles out of "their"

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

parts. The production of all the units will gradually be "Russified," that is, will be transferred to Russian territory.

It is very important here that the sales price of the vehicle, although it will increase, will still be competitive on the world market. Whereas one KamAZ goes for $20,000-25,000 abroad right now, the new vehicle will cost $40,000-45,000, while Western-produced vehicles of this class sell for an average of $70,000.

KamAZ is not counting only on Western partners, however. Within the framework of the program for strategic development of the AO, for example, a program has been worked out in conjunction with Russian Goskomoboronprom for converted enterprises to participate in the modernization of KamAZ, for which 400 billion rubles [R] has been allocated. In accordance with this program, KamAZ specialists have inspected about 180 enterprises throughout Russia, and have placed orders at many of them.

In addition, by an Edict of the President of Russia, the Volga-Kama Financial-Industrial Group has been set up. It combines two motor vehicle giants—VAZ and KamAZ. "They have quite a few points of contiguity," said Vadim Paslov, deputy director. "Let us say, the Volga people are having serious problems with the forging facilities, while at our plant these capacities are not fully loaded. Why should we not set up mutually advantageous cooperation?" The two motor vehicle giants have also set up a joint venture, KamAZ-VAZ-Nauka.

Besides modernizing production, KamAZ intends to diversify gradually, since, in the opinion of the board of the AO, "it would be suicide to go out on the market with just a single product today." Models of 40-passenger buses are already undergoing tests, mini-tractors are being produced, and the production of Oka compact cars is being fully transferred from VAZ to KamAZ, where a plant for their production was turned over for operation at the end of last year.

Demand. Whereas before, KamAZ experienced problems with sales, they lay, not in selling the vehicles, but in providing them for everyone who wanted them. Today, although the need for vehicles of this class has remained, the demand for them has dropped greatly. It is understandable that, under these conditions, the KamAZ sales service will have to roll up its sleeves, as they say, and get to work. KamAZ has converted 200 of its technical vehicle centers into a dealer-distributor network. Each of the vehicle centers handles the sale of the vehicles and spare parts for them, and technical service.

Not only are the patterns of motor vehicle sale changing, but also the financial relations between seller and consumer. Whereas before, upon paying in advance and turning over his application, the customer had to wait several months for "his" vehicle, resourceful settlement schemes are now being worked out in which the purchaser can obtain a motor vehicle even if he does not have the money. For example, this was the agreement with Ukraine, which formerly bought 15,000 vehicles yearly, but last year took only 20 units: KamAZ ships the cars there on the strength of supplies of iron ore from Ukraine to Germany. Moreover, the German funds are transferred, not to Ukraine, but straight to the account of local banks authorized by KamAZ.

People. The end result of carrying out the strategic program for each of the KamAZ workers should be a rise in wages of up to $1,000 on the average per month. Today, few of the plant workers can boast of material well-being: the already low wages have not once been paid on time since the fire at the engine plant. In the words of Nikolay Bekh, however, all the indebtedness for wages will be cleared off in the near future.

The plant does not expect any major cut in personnel, even though it may need a smaller work force to produce the 45,000 motor vehicles planned for this year. "It is cheaper for us to pay the people wages now than to train new specialists when the plant arrives at the planned capacity," said Bekh. The KamAZ management proceeds on the basis of this logic, having recently cut the work week to three days.

Result. It seems to me that, following Ford, Bekh has the right to declare: what is profitable for KamAZ is profitable for Russia. In the first place, an excellent motor vehicle will appear in the country. In the second place, at least $500 million will be received yearly in the form of the budgetary taxes of Naberezhnyye Chelny, Tatarstan and Russia alone. In the third place, the modernization of KamAZ will stimulate the development of several hundred enterprises-partners throughout Russia, since the plant will not be in a position to produce all the completing items in Naberezhnyye Chelny. I could go on in the same vein. The main thing, in my opinion, is the fact that KamAZ has become a driving force on the path to drawing serious foreign investments to Russia. The unparalleled sum of private investments—$3.5 billion—indicates the West's awakening faith in Russian industry.

*New Diamond Export Agreement with De Beers Discussed

954F1462A Moscow KOMMERSANT-DAILY in Russian 17 Feb 95 p 10

[Article by Vladimir Teslenko: "Diversification of Diamond Sales: Fifty-Fifty, 'Partial' Agreement, or 'Three-Way' Agreement: Prospects for an Agreement Between Russia and De Beers"]

[FBIS Translated Text] A delegation from the De Beers diamond company led by the director of the Russian division of Mayklom Farmilou was in Moscow on 6-8 February. The purpose of the visit was to resolve working problems with the Almazy Rossii-Sakha company over the current agreement; however, the delegation members naturally did not fail to consider prospects for a new agreement after 1995. This discussion went on against the backdrop of an extended pause in official negotiations between Russia and De Beers over a new agreement on the export of jewel diamonds. The last round of these negotiations took place in late September 1994, at which time the date of the next meeting was set—12

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

December—although this did not take place. The talks were moved to late January. Now it is already mid-February, and the date of the official meeting still has not been set. The protracted pause in negotiations between these two major producers of diamonds is being actively discussed right now throughout the diamond world. Today KOMMERSANT decided to analyze the reasons for this lengthy time out.

No one now doubts the fact that Russia and De Beers will sign a new multiyear agreement, although even last summer the diamond world was actively discussing the alternative to the agreement—thousands of direct links. Nonetheless, both Russia and De Beers require coordination of production and sales activity. The complicated course of the negotiations process attests not to any lack of desire among the parties to come to an agreement but to the presence of several poles of strength and influence. Therefore we should expect a nontrivial form of new relations, since the partners' intellectual potential makes it possible to implement long-term ideas on the personal, corporate, and national levels in a few months.

Nonetheless, the half-year pause in official negotiations is raising much speculation in diamond circles. At first glance it might seem that the break is related to Russia's domestic problems, which are diverting attention from the relationship with the diamond monopoly. However, certain information that is reaching KOMMERSANT allows us to interpret this pause as a natural stage after three rounds of negotiations in May and September 1994. The sides have already demonstrated their readiness to search for new ideas and are busy working out scenarios for a new agreement.

Results of Three Rounds of Negotiations

The fundamental base version of the agreement being readied is the currently effective "Agreement on Sales" (1989-1995), with some modification to it that takes into consideration the political and business changes of recent years in the world of Russia and South Africa. The basic principles are Russia's independence in the mining of diamonds, the exclusive export of unprocessed jewel diamonds to De Beers under the annual quota, a two-stage mechanism for determining sale prices through free sales of samples from export batches, Russia removing itself from conducting wholesale sales of diamonds—sites.

The proposed scenarios coincide only in that the parties are proceeding from the intention of closer cooperation in diamond operations. In essence they have turned out not to differ sharply. De Beers has proposed a version analogous to their current agreement with Botswana or Namibia. It assumes the organization of a joint enterprise to mine diamonds, their sale only through the De Beers Central Sales Organization (TsSO), bringing two or three Russian representatives into the TsSO administration, and supplying Russian diamond-cutting factories with raw diamonds only through the TsSO.

The Russian side has worked out the concept of a "new TsSO," which assumes partnership only in wholesale diamond sales without deep interaction in the mining of the precious output. The transformation of the old into a new TsSO is assumed on the basis of the joint-stock principle of proportional value of diamonds mined annually by each producer (Almazy Rossii—Sakha, De Beers Consolidated Mines, Namdeb, Debswana Diamond, Argyle, and others).

The two scenarios for the partnership—Russia's and De Beers'—are quite far apart, and the search for a compromise will require quite a lot of effort. At the same time, the sides will probably be able to reach a mutual understanding within the framework of the "base" version one or two months before the end of 1995—the end of the current five-year agreement. This is more than likely why the half-year pause in negotiations between the parties occurred.

[Box, p 10]

"Core Business" TsSO

The revolutionary change in the conduct of wholesale sales consists in select clients being accorded substantial advantages. In particular, year-round clients are guaranteed stable supplies of diamonds regardless of the state of the market and the total amount of the wholesale sale. According to data in the specialized journal MAZAL U'BRACHA, this innovation has allowed for a substantial increase in stability in the diamond-processing industry, since now the major diamond producers can plan their annual program more efficiently. In addition to everything else, producers no longer have to tremble nervously in anticipation of exactly which wholesale lot will be offered to them. [end box]

This pause has made it possible, however, to take another look at the contemporary market in jewel diamonds, to sort out in detail the mechanism for extracting profit at the various stages in moving diamonds along from mines to store counters, to find some economic profit from the artificial regulation of the sale of the raw material with the help of the TsSO, and to assess the possibility of self-regulating various sectors of the diamond market. If you like, for the first time in the 60-year existence of a one-channel system of sale for diamonds, the renowned De Beers offspring, this kind of massive "brainstorm" is being taken on in order to modernize it. Participating are experts from de Beers, Almazy Rossii-Sakha, Roskomdragmet, and the Yakutsk government, as well as colleagues from several international diamond companies and organizations. Discussed most often is the relatively new idea of the diversification of the sale of Russian diamonds. Its essence rests in the departure from exclusive export to TsSO. KOMMERSANT has learned of three scenarios for diversifying diamond exports.

Four Sectors in the Natural Diamond Market

Type of Diamond	Cost ($/carat)
Industrial	0.5-10
Almost jewel	10-100
Standard jewel	100-1,000
Special (unique)	over 1,000

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

Fifty-Fifty

The first scenario actively being worked out by Russian experts could be called the "fifty-fifty." In it, essentially, only 50 percent of the diamonds of each sort being exported would be sold under the multiyear agreement through the De Beers TsSO. The other half would be sold on the free market through a limited circle of dealers. Presumably, unlike free competition, this method of sale for Russian diamonds will not destroy the market's equilibrium.

Strictly speaking, this idea is not at all new. Veterans of the diamond business remember that something similar was discussed in the 1970's and 1980's, for example, in the Soviet Union, Zaire, and other countries. Russia has decided to revive this once popular idea. Moreover, in the latter half of 1994, an entire series of talks was held between associates of Almazy Rossii-Sakha and Roskomdragmet and several private companies from the United States, Belgium, Israel, India, and Thailand.

Naturally, the content of these talks has been kept secret. Even if some preliminary agreements have been reached, so far they have been kept in reserve to be used in the next round of talks with De Beers. There is already sufficiently substantial recognition of the significance of the Russian initiatives to create a fifty-fifty scheme. As of January 1995, De Beers introduced a new procedure for holding wholesale sales, which they call the "core business." This innovation (see inset) is aimed at the fuller satisfaction of the requirements of the TsSO's main clients, as De Beers associates proudly state. At the same time, the "core business" strengthens clients' dependence on the TsSO. This limits the operational space for Russian intrigues according to the fifty-fifty scheme.

"Partial" Agreement

This is exactly what the second scenario being discussed by outside Western specialists could be called. For instance, this idea is being developed by associates of the English company IDC (Holding) Ltd., which is known for its auctions of especially large diamonds.

This scenario proposes utilizing the market's natural four-sector structure (see table). Some specialists are convinced of the market independence of these sectors. The fact that the industrial application of diamonds virtually does not intersect with the jewelry application (true, there are categories of stones with dual application) lies on the surface. However, experts think that the three sectors of jewel diamonds also function distinctly from one another to a significant degree. Therefore, Western analysts propose the following scenario: Take technical and near jewel diamonds outside the framework of the agreement between Russia and De Beers and concentrate all efforts in the negotiations process around the more expensive good—diamonds worth more than $100 per carat.

"Three-Way" Agreement

The De Beers experts have not refrained from creative rethinking of the relationship with Russia. The idea of a three-way agreement has matured in the depths of the diamond empire. On the one hand, this idea could support the Russian desire for greater independence from de Beers; on the other, it could maintain stability in the market for unprocessed jewel diamonds. The scenario for a three-way agreement is taken as an alternative to the fifty-fifty agreement. De Beers experts are proceeding from the fact that not a single one of the specialized diamond firms that exists in the world would be appropriate for the role of a reliable Russian dealer. Therefore they propose giving half the export of Russian diamonds to one of the major transnational corporations that has experience in diamond operations. A potential Russian partner and participant in the three-way agreement could be, for example, Du Pont de Nemour (United States) or Mitsui (Japan). The latter looks somewhat preferable. First of all, any American company will experience numerous legal complications in the course of collaborating with the worldwide De Beers monopoly due to the stringent antitrust legislation. By the way, still fresh in the memory is the legal prosecution of the General Electric company in the United States over an agreement with De Beers concerning high prices for technical diamonds.

Second, according to De Beers adviser Nikita Lobanov, Mitsui's participation in a large oil project in Russia (with the Lukoyl company) could prompt the Japanese company to expand its activities in Russia—through participation in diamond exports. Oblique confirmation of this is the fact that one of Mitsui's top men plans a visit to Russia at the end of February. During the visit there are plans to hold talks with major individuals in Russia's diamond sector, including Roskomdragmet Chairman Yevgeniy Bychkov, Almazy Rossii-Sakha President Andrey Kirillin, and Yakutia Vice President Vyacheslav Shtyrov.

[Box, p 10] **The Mitsui Company** was founded in 1947. Its shares are listed on major stock exchanges. The main shareholders are Mitsui Life (4.7 percent), Sakura Bank (4.5 percent), Mitsui Trust (3.9 percent), and Fuji Bank (3.6 percent). The company's major spheres of activity are ferrous and nonferrous metals, machine-building, petrochemicals, and textiles. Mitsui possesses a diversified trading network. In 1994 its total sales were $160 billion. It employs 8,900 people. In April 1992, Mitsui, along with 57 other Japanese companies, created the SUIP joint enterprise with authorized capital of $15 million for the sale of projects in Russia. Mitsui's representatives have been looking for opportunities to cooperate with Russia's diamond branch for more than a year. [end box]

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

An Invitation To Collaborate

Prices	[Names published in English]	CIF for dealers	Retail Price
Inkjet printer	Deskjet 540	$ 305	$ 386
Laser printer	LaserJet 4L	$ 595	$ 750
	LaserJet 4 Plus	$1,395	$1,911
Scanners	ScanJet IIp	$ 495	$ 685
	ScanJet IIcx	$ 991	$1,370

The Lamport Company is continuing to form a dealer network for the sale of high-tech office equipment. There are more than 2,000 items in the Lamport catalog. Preferential conditions for collaborators: information provision; quick delivery time (no more than two weeks); CIF or DDP delivery; customs assistance; guaranteed service.

Protection of Consumer Cooperatives' Interests Debated

954F1502A Moscow SELSKAYA ZHIZN in Russian 18 Feb 95 p 2

[Report issued by the Tsentrosoyuz [Central Union of Consumer Cooperatives] Press Service: "A Compass for Cooperatives"]

[FBIS Translated Text] The third general assembly of representatives of consumer societies in the Russian Federation—the highest organ of consumer cooperatives—was held in St. Petersburg on 11 February 1995. Representatives of cooperative organizations in all regions of Russia, as well as employees of the Russian Federation Government Apparatus, the RF Ministry of Finance, the RF Ministry of Justice, attorneys and jurists from the Research Center on Individual Law attached to the President of the Russian Federation, the State and Law Institute of the RF Academy of Sciences, and the chairman of the Russian Agrarian Party, took part in the assembly's work.

Participants in the assembly of representatives of consumer societies welcomed with unanimous approval the messages of greeting from V.S. Chernomyrdin, chairman of the Russian Federation Government; V.F. Shumeyko, chairman of the Federation Council of the RF Federal Assembly; I.P. Rybkin, chairman of the State Duma of the Federal Assembly; and from the Russian Agrarian Party, which noted the important role of consumer cooperatives in the social and economic life of rural areas and highly evaluated its activity in the service of the rural population.

The assembly participants' main attention was concentrated on discussion of the question "On the social and economic status of consumer cooperatives in 1994 and their basic tasks in 1995," which was the subject of the address made by V.F. Yermakov, chairman of the board of the RF Tsentrosoyuz. The chairman's report and the speeches stressed that as the result of tremendous efforts by the Tsentrosoyuz and cooperative organizations locally, they had managed to prevent disintegration of the consumer cooperatives, to keep them as an integral system, and to obtain support for them at both the federal and regional levels.

For the first time in the history of Russia's cooperatives, their relationships with state organs of authority have begun to be based on the conclusion of agreements each year. Cooperative enterprises have been given the right to establish a fund for the development of consumer cooperatives; these funds are set aside mainly to replenish working capital and for investment.

However, many of the speeches stressed that consumer cooperatives are experiencing serious financial difficulties. This is primarily because of their special social role. Being a noncommercial structure, their purpose is not to make a profit, but to meet the requirements of their members (practically all of whom are rural residents) for goods and services, and for that reason, they deliver commodities to the most remote villages and settlements and supply them for those who live there. In addition, because of the low purchasing power of rural workers, who receive the lowest wages in the country and are far from always able to pay for essential products and commodities with their own money, cooperative trade employees have been forced to commit flagrant violations by releasing commodities without payment, against future wages.

Another reason for consumer cooperatives' extremely difficult financial situation is the excessively high interest rates , as well as the increasing prices and tariffs. Cooperatives in many countries, which unify and serve the poorest sections of the public, as a rule, are given special attention by the state and granted certain benefits. Most cooperative organizations and enterprises have become unprofitable through no fault of their own in Russia at present. Under the system, the sum total of their losses reached more than 700 billion rubles [R] last year.

Cooperative organizations in regions of the Far North and areas with the same status have turned out to be on the verge of financial collapse. One delivery of commodities here often comes to several times more than they cost. The state's commitments to compensate for the expenses often are not fulfilled or carried out very late. Now the time is coming for active preparation to deliver commodities to the northern regions with limited navigation periods, but cooperative members are completely unaware of when and how this work is to be carried out. Last year the shipment of goods to many northern regions was stalled, and the people had to use the stocks that had been reserved. Now they have been exhausted.

Speakers at the assembly expressed considerable alarm about the cases of illegal interference by local authorities in

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

the affairs of consumer cooperatives and their attempts to abolish them and seize the cooperatives' property, which are becoming more frequent. In this connection, they expressed the view that it is necessary to reinforce their legal protection as an integral system in the people's interests.

Speakers at the assembly stressed that the principal problems for consumer cooperatives at present are overcoming their financial difficulties and providing for reliable legal protection. The efforts of the board and apparatus of the Tsentrosoyuz and the boards of republic, kray, and oblast consumer cooperatives and consumer societies should be concentrated on their solution as well.

The assembly decided to send appeals to Russian President B.N. Yeltsin and State Duma deputies for support in resolving the questions cited.

Discussion of problems associated with implementation of part of the first Civil Code of the Russian Federation and the introduction of amendments and additions to the Russian Federation Law "On consumer cooperatives in the Russian Federation" was given an important place in the assembly's work. S.A. Khokhlov, head of the Research Center on Individual Law attached to the Russian Federation President and candidate of juridical sciences, and Professor T.Ye. Abova, head of the Cooperative Sector of the State and Law Institute of the RF Academy of Sciences and doctor of juridical sciences, delivered reports providing a legal interpretation in realizing the norms of the Civil Code with respect to consumer cooperatives and offered a number of specific proposals to improve the law on consumer cooperatives and bring it into compliance with the Civil Code.

The speech by M.I. Lapshin, chairman of the Russian Agrarian Party, who spoke about the party's programmed goals and tasks, activity by its faction in the State Duma, and its work among rural residents, was received with considerable interest. M.I. Lapshin called upon cooperative members to collaborate closely with the APK [agroindustrial complex] to defend the interests of rural workers and meet their social needs.

The assembly considered a number of other important questions affecting consumer cooperatives' activity and adopted decisions on them. The assembly acknowledged the satisfactory work of the Tsentrosoyuz board and its presidium and apparatus in carrying out the chartered tasks, primarily in protecting consumer cooperatives' interests, and set the basic directions for its activity in the current year.

The following were included among its priority tasks: conclusion of an agreement with the Russian Federation Government on relationships in 1995, more active work to resolve problems related to provision of financial support for consumer cooperatives by the RF Government and the RF Federal Assembly for the timely shipment of food and essential commodities to regions in the Far North during the navigation period, and the organization of service for rural workers in spring field work, as well as protection of its legal status.

Assembly participants expressed the unanimous view that it is necessary to reinforce the unity and solidarity of the cooperative movement and to unify efforts by cooperative members to uphold the vital interests of shareholders and the entire rural population.

State of Food Market Assessed; Production Figures Cited

954F1326A Moscow NEZAVISIMAYA GAZETA in Russian 8 Feb 95 p 3

[Article by Candidate of Economic Sciences Dmitriy Rubvalter, Analytical Center under the Presidium of the Russian Federation: "They've Got Hold of the Agricultural Sector from the Wrong End; the Food Supply has Dropped to the 1960's Level]

[FBIS Translated Text] Yegor Gaydar considers that the economic model he proposed staved off the starvation which threatened society in 1991 is one of his basic contributions. Indeed there was no real threat of starvation whatever in 1991 since food resources were adequate (see table). However, there was a crisis, rather a collapse of the old system of distribution which crashed down under the weight of the monetary overhang—the unsatisfied demand of the population, which had taken on speculative forms in 1991. The liberalization of prices removed the monetary overhang and established temporary equilibrium on the consumer market. However, it did not accomplish and could not in principle accomplish the task of stimulating production under conditions of a monopolized economy. This becomes especially clear as applied to agriculture. In principle, taking into account the available potential of agricultural production, experience and historical traditions, the conditions exist in the country for self-sufficiency in the basic types of products.

Nevertheless, the state of the market for food products in Russia since 1991 is characterized by a steady reduction in the volumes of production. The production volumes of meat have declined by 30 percent, butter by almost a third, sugar and dairy products by a fourth. The decrease in the volumes of production, with the exception of sugar, could not be compensated for in any substantial way by imports and the production of products on personal subsidiary plots. A substantial contraction of the personal consumption of the population has taken place as a result.

Based on the level of meat consumption 1994 corresponds approximately to 1970, for dairy products to 1960, and for butter to 1977.

There are a host of reasons for the deep drop in agricultural production. Among them are the absence of radical changes in the land sphere, primarily completion of the reform and adoption of a Land Code which consolidates the transformations accomplished. There also are the feeble support of individual farmer farming, the lack of serious changes in the sphere of the purchase, processing, and packaging of products, primarily on the basis of small business, which would allow one to cut down the colossal losses (reaching

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

up to 20-40 percent) of agricultural products during processing, storage, transporting, etc. In not a single country where the "green revolution" has spread has it been accomplished without the packaging of output and this is not purely a trade but a broad problem applying to all foodstuffs. Unfortunately we have gone not forward but backward in regard to packaging and self-service. This confirms the truth that by itself the spontaneous development of the market does not generate resource conservation and a service culture. The lack of solution of system-wide problems, along with the relative diminution of the share of agriculture in capital investments (from 17.8 in 1991 to 6.7 percent in 1993) and price disparity, have led to a profound crisis of agricultural production.

The situation on the foodstuffs market has been aggravated by the introduction since 1 July 1994 in conformity with Russian Federation government decrees No. 196 of 10 March 1994, No. 1071 of 20 September 1994, and No. 1101 of 27 September 1994 of import customs duties on products of animal origin at a rate of from 8 to 20 percent and on sugar—15 percent. The introduction of the duties was justified by the need to protect domestic agricultural production. There was talk about food surpluses. It is highly probable that at the level of individual regions there are surpluses of resources. However, up to this point a real competitive environment in the procurement and transport of products is lacking. That is why even products that are available are delivered to the consumer with difficulty. In these terms it is worthwhile recalling the broker (posrednicheskiy) cooperatives which supplied large cities with products in 1988-1989 but were successfully routed by the fighters for equality in the former USSR Supreme Soviet.

It should be emphasized that after the first price shock at the beginning of 1992 the market reacted relatively flexibly to the reduction of production volumes in 1992-1993. This created the illusion of its being filled under conditions of a steady reduction in the population's consumption. It is obvious that with regard to products of animal origin 1994 represents a well-defined critical level of consumption in this respect. Sociological studies being conducted by a number of scientific organizations, in particular the Institute of the Social and Economic Problems of Population of the Russian Academy of Sciences, indicate that even in the least well provided for strata of the population, whose incomes don't reach the subsistence minimum, the actual consumption of food products is higher than for the minimum product basket that is achieved by expenditures for products of 90 percent of the incomes. National consumption characteristics and climatic factors also have an effect. We'll cite only two examples. Thus, meat consumption in poor families comes to 29.4 kg. per year but 26.6 according to the minimum basket. At the same time consumption of fruits is, correspondingly, 14 and 19.4 kg. Thus, the population gets accustomed to a definite standard of consumption of food products. Reduction of commodity supply under these conditions can take the market out of a state of relative equilibrium. Achievement of equilibrium in this case can be attained based on the emergence of the factor of speculative demand only on condition that there is price shock (a repeated growth of prices) and a drastic destabilization of the social and political situation. Thus, the 1994 level of resources and consumption should be taken as critical, lower than which one cannot descend.

At the same time the relative regularity of the food supply in 1994 was achieved in many respects through the utilization of reserve commodity stocks. This has resulted in their significant reduction at the end of the year. As of 1 December 1994, in comparison with the analogous period of last year, they had shrunk 2.4 times for meat and meat products and came to 120,000 tonnes or 13 trading day's worth. For milk and dairy products stocks had shrunk three times and amounted to 914,000 tonnes as of 1 December, including 30,500 tonnes for butter. Such a low level of stocks has not been observed for the last 30 years. Hence the interruptions in trade which have arisen in Moscow and the regions. As of 8 December 1994 there were enough reserves of meat products in Moscow for 15 trading days, of butter for eight trading days, of vegetable oil for four days, and of sugar for 27 days. Prices for butter in Moscow increased three times during December. Nevertheless serious interruptions in its sale occurred and only the four- to five-fold growth of prices in January relatively stabilized the situation.

A further decrease in the production of agricultural products is forecast in 1995. According to the estimates of the Russian Federation Committee on Trade and data from the Ministry of Economics and the Ministry of Agriculture and Foodstuffs, the production of meat and milk will fall by 12 percent in the first half of 1995 as compared to 1994 and that of vegetable oil by 45 percent. Significant problems can occur with sugar in connection with a shortage of the basic raw material.

On the whole, according to the Russian Federation Committee of Trade estimate and taking the Ministry of Economics and Ministry of Agriculture and Foodstuffs forecast into account, if the necessary measures are not taken reserves for meat products in 1995 will come to 86.8 percent of the 1994 level, for dairy products 82 percent, for butter less than 80 percent, for sugar 58 percent, and for vegetable oil less than 50 percent. Naturally, especially complex problems occur with the supplying of large cities. The wholesale fair for the purchase of foodstuffs for 1995 for Moscow, held on 24-25 November, in particular has confirmed this. No more than 16 percent of the consumption of meat and milk in Moscow can be covered through internal sources. And it is inappropriate under the given conditions to talk about some antipatriotism of the Moscow authorities. They buy up products wholesale where they can be bought.

As a result one can state that the country has entered into a serious foodstuffs crisis. A sacred question for the Russian person arises in this connection: what is to be done? I will try to answer it very briefly. First of all, no matter how complicated it would be for the budget, it is necessary, if only temporarily, until the food crisis is alleviated, to cancel the customs duties for imported meat

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

and meat products, milk and dairy products, including butter and sugar, so as to stimulate, chiefly, wholesale purchases of foodstuffs by private structures. Secondly, a governmental operational foodstuffs reserve playing a damping role in the mitigation and in the future in the prevention of such situations, should be created to supply federal foodstuffs consumers (the army, large cities). Finally and most important—a program for support of the development of small and medium-sized entrepreneurship in the production, purchase, processing, packaging and sale of food products, including measures for the complete cancellation and minimization of taxes, state support of investments in the agricultural sphere, both domestic and foreign, direct government investments in infrastructure on a compensatory and repayable basis, protection of entrepreneurship from mafiosi structures, which is directly related to the supplying of large cities, etc. It is advisable to direct the extremely small investment resources which can be earmarked in the budget for 1995 to competitive projects in the agricultural sphere.

Thus, the question is essentially one of a national foodstuffs program but on a fundamentally new, market, basis, on a territorial footing with methodological, coordinating and legal support from the Center.

Russian Federation Per Capita Consumption of Basic Food Products (kg. per year)

Products	1991 Actual	1992 Actual	1993 Actual	1994 Anticipated	1995 Forecast
Meat and meat products in meat equivalent	69	60	59	52	50
Milk and dairy products in milk equivalent	347	281	294	277	254
Vegetable oil	7.8	6.7	6.0	6.5	3.25
Sugar	37.8	30	30	30	30.0
Butter	5.8	5.4	5.3	5.0	4.0

* State of Fuel, Energy Complex in 1994, Main Directions for 1995

954F1436A Moscow KOMMERSANT-DAILY in Russian 14 Feb 95 p 3

[Article by Vladislav Borodulin: "Two Factors Facilitate the Stability of the Fuel and Energy Complex: Export Quotas and Budgetary Subsidies for Consumers"]

[FBIS Translated Text] **A pronounced distance between the analysis of companies' activities and the traditional pseudo-macroeconomic survey—that is the impression left by the analytic information, "Results of the Work of the Fuel and Energy Complex in 1994 and the Main Directions for Its Activity in 1995," prepared for Friday's board meeting of Fuel and Energy Ministry (see KOMMERSANT, 11 February). Actually, it would be hard to expect anything different: Thus far, branch statistics have served only as grounds for presenting supplemental budgetary subsidies.**

A 20 Percent Increase in Oil Production in a Year Is Not the Limit

The physical indices of the branch's activity—the traditional starting point for any statistical report—are cited in the table. The production of primary fuel and energy resources recalculated in conventional equivalents declined last year by 6 percent (the analogous index for 1993 was 7 percent). As before, the drop in production in the TEK [fuel and energy complex] lags behind the general index of industrial production, which dropped by 20.9 percent. True, this index varies strongly for the various sectors of the TEK—from 1.8 percent in natural gas production to 10.9 percent in the coal industry. Of most interest, however, is the situation in the petroleum complex, naturally, not only because the export of petroleum and petroleum products is a principal export position (in 1994, $8.95 billion in petroleum was sold and $3.4 billion in petroleum products) but also because the authorities see the petroleum sector as a symbol of the economic reforms in the TEK in general.

According to data from the Mintopenergo [Fuel and Energy Ministry], petroleum production dropped by 10.3 percent. There was an especially large drop, the ministry report emphasizes, in the first half of 1994, when work stopped at more than 10,000 wells, due to the overstocking of petroleum refineries. The report describes quite remarkably the actions of authorities that allowed "the situation to stabilize somewhat": Measures were taken to allow exports to increase (undoubtedly, they are referring to the granting of additional export quotas), and the purchasing power of domestic consumers was increased partially (again by allocating budgetary subsidies and loans).

Structure of Petroleum Production by Oil Companies in 1994

Oil Company	Percentage of Production
Rosneft State Enterprise	24
LUKoyl	14
Surgutneftegaz Oil Company	11
SIDANKO Oil Company	10
YuKOS Oil Company	9
Tatneft	7
Bashneft	6
Slavneft Joint-Stock Company	4
Vostochnaya Oil Company	3
ONAKO Joint-Stock Company	3
KomiTEK	2
Others	7

Source: InfoTEK.

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

Meanwhile, the ministry's statement on the general situation in petroleum production gives no sense of the structure of the decline on the whole for the country. According to Goskomstat (State Committee for Statistics) data, the overall decline did not affect joint enterprises in this branch, where the increase in production was 7 percent. Formally, joint-stock companies that were not part of Mintopenergo operated even more successfully (production increased by 26 percent), as did enterprises subordinated to another federal department, Roskomnedr (Russian State Prospecting Committee) (23 percent growth). As a result, these enterprises' share in total production increased by nearly one-fourth, totaling 4.5 percent. Goskomstat experts believe that this increase in production was achieved by opening up new deposits and "introducing new methods for increasing the petroleum yield of the beds." It is obvious, however, that "prosperous" companies do not play a substantial role.

According to ministry data, a deeper decline than average for the industry was experienced by the YuKOS NK [oil company] (15.4 percent drop) and the SIDANKO AO [joint-stock company] (13.5 percent). Operating better than the branch as a whole were the Tatneft AO (7.8 percent), Bashneft AO (0.5 percent), ONAKO AO (2.6 percent growth), Slavneft AO (2.8 percent), and Vostochnaya NK AO (3.1 percent). The dynamics of petroleum production by the largest Russian petroleum joint-stock companies—LUKoyl (10 percent) and Surgutneftegaz (10.2 percent)—corresponded approximately to the branch overall.

The quantitative indexes of the activity of oil refining enterprises demonstrate an even sharper negative dynamic. Last year, 185.1 million metric tons of petroleum were supplied to NPZ's [oil refineries] for refining, which is 16.8 percent less than in 1993. The cutback in the consumption of petroleum products caused by the decrease in solvent demand led to a sharp decrease in the load on NPZ capacities—from 67 percent to 55.2 percent. According to experts from Mintopenergo, this kind of load on plants already threatens the stability of the technological processes. Last year oil refining depth continued to decline, to 61.3 percent as against 62.3 percent. In this situation, it would be logical to expect companies to want to redistribute raw material flows in favor of the most efficient capacities in order to remove them from the zone of technological and economic risk. However, to judge by the statistical data, this is not happening. The crude oil available is being spread through all the plants. Among the reasons for this conduct by companies (including Rosneft GP [state enterprise]) is the "responsibility" each of the 25 Russian NPZ's has to supply a specific region. Obviously, this as well as social (the desire to maintain employment) factors are decisive in the choice of this kind of passive strategy of behavior for companies.

Another factor that feeds companies' desire to keep all plants going is the current transportation scheme—the supply of petroleum via major pipelines substantially limits the choice of consumers and, consequently, the efficiency of restructuring the branch. Alternative supplies (outside the system of major pipelines) have a natural regulator—transportation expenses.

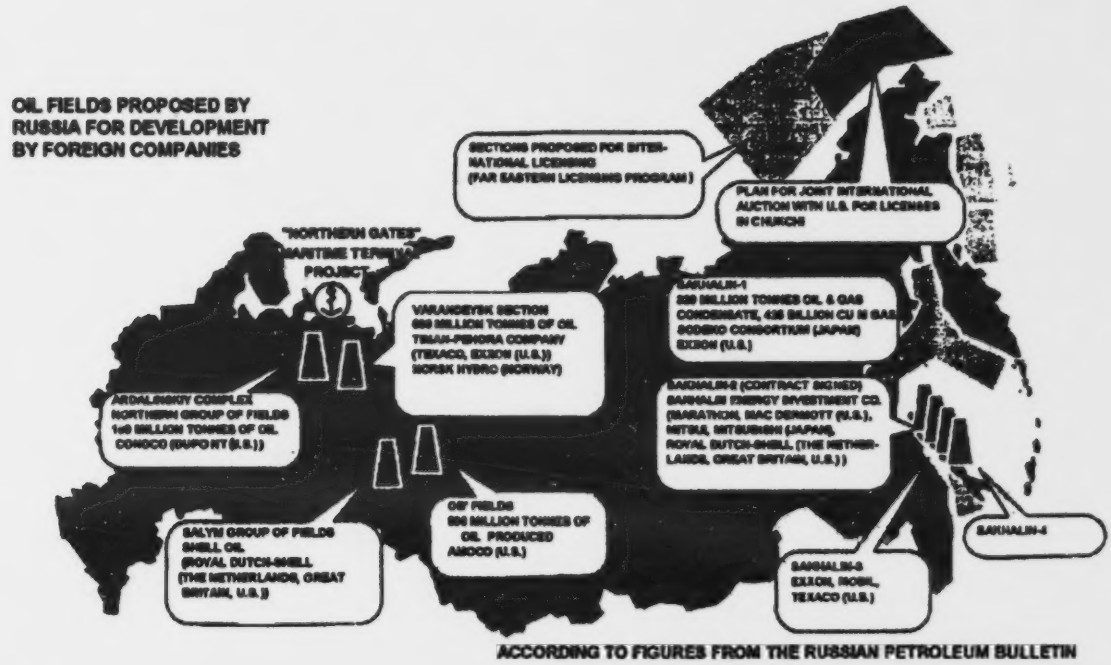
Results of the Work of the National Fuel and Energy Complex, According to Mintopenergo Data

Production of Primary Fuel and Energy Resources	Volume of Output	
	1993	1994
Oil with natural gas condensate, millions of metric tons	354.4	317.8 (316)*
Natural gas, billions of cubic meters	618.32	607.3 (607)
Coal, millions of metric tons	304	270.9
Electricity, billions of kilowatt-hours	956.6	876.6 (876)
Gasoline, millions of metric tons	30.4	26.9(26.4)
Diesel fuel, millions of metric tons	57.4	46.4 (46)
Fuel oil, millions of metric tons	82.4	70.7(70.1)
Export of Main Fuel and Energy Resources		
Crude oil, millions of metric tons	79.5	90.9(89.0)
Natural gas, billions of cubic meters	100.9	105.8(109.0)
Coal	18.6	14.45(17.429)
Electricity, billions of kilowatt-hours	4.9	5.3(8.166)

*Goskomstat data in parentheses.

Mintopenergo's assessment of the situation in oil refining is near panic: The state and post-state system of petroleum product provision "is not withstanding competition from commercial structures." Data from both the ministry and Goskomstat attest to the steady curtailment of the role of the traditional system of petroleum product provision: Their share in the total volume of supplies to the domestic market of gasoline has been cut from 75.5 percent to 66.5

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.


OIL FIELDS PROPOSED BY RUSSIA FOR DEVELOPMENT BY FOREIGN COMPANIES
SECTIONS PROPOSED FOR INTERNATIONAL LICENSING (FAR EASTERN LICENSING PROGRAM)
PLAN FOR JOINT INTERNATIONAL AUCTION WITH U.S. FOR LICENSES IN CHUKCHI
"NORTHERN GATES" MARITIME TERMINAL PROJECT
VARANDEYSK SECTION 600 MILLION TONNES OF OIL TIMAN-PECHORA COMPANY (TEXACO, EXXON (U.S.)) NORSK HYDRO (NORWAY)
SAKHALIN-1 359 MILLION TONNES OIL & GAS CONDENSATE, 435 BILLION CU M GAS SODEKO CONSORTIUM (JAPAN) EXXON (U.S.)
ARKHANGELSK COMPLEX NORTHERN GROUP OF FIELDS 140 MILLION TONNES OF OIL CONOCO (DUPONT (U.S.))
SAKHALIN-2 (CONTRACT SIGNED) SAKHALIN ENERGY INVESTMENT CO. (MARATHON, MAC DERMOTT (U.S.), MITSUI, MITSUBISHI (JAPAN), ROYAL DUTCH-SHELL (THE NETHERLANDS, GREAT BRITAIN, U.S.))
OSP FIELDS 500 MILLION TONNES OF OIL PRODUCED AMOCO (U.S.)
SALYM GROUP OF FIELDS SHELL OIL (ROYAL DUTCH-SHELL (THE NETHERLANDS, GREAT BRITAIN, U.S.))
SAKHALIN-4
SAKHALIN-3 EXXON, IRISH, TEXACO (U.S.)

ACCORDING TO FIGURES FROM THE RUSSIAN PETROLEUM BULLETIN

percent, for diesel fuel from 60.1 percent to 45 percent, and for fuel oil from 40.4 percent to 14.4 percent. The proportion of direct output for light petroleum products was 48 percent. True, specialists from the Antimonopoly Committee look on the situation in petroleum sales completely differently. As follows from the state report, "On the Development of Competition in the Markets of the Russian Federation," committee experts consider certain local markets for petroleum products extremely monopolized—77 petroleum sales enterprises belonging to the Rosneft GP and 6 joint-stock companies. As a result, experts from both Mintopenergo and GKAP (RF State Committee for Antimonopoly Policy and Support of New Economic Structures), while ascertaining the very same fact—the presence of continuous failures in supply—explain it by various reasons: "directors of regional petroleum product provision organizations who have done a poor job upon concluding contracts" (Mintopenergo), and "the monopoly structure of the petroleum products market burdened by high technological and economic barriers" (GKAP).

Importers of Russian Natural Gas
(billions of cubic meters)

Country	Volume of Gas Purchased	Country	Volume of Gas Purchased
Ukraine	57.0	Romania	4.5
Germany	29.6	Finland	3.4
Belarus	14.3	Moldova	2.95
Czech and Slovak Republics	13.8	Lithuania	2.11
Italy	13.8	Slovenia and Croatia	1.2
France	12.1	Bosnia	1.1
Poland	6.2	Latvia	1.05
Hungary	5.2	Estonia	0.64
Turkey	5.1	Kazakhstan	0.52
Bulgaria	4.7	Switzerland	0.4
Austria	4.7		

Gazprom Can Even Allow Itself Investments in Texas

Mintopenergo specialists begin their analysis of the financial state of any TEK sector by ascertaining the intensification of the nonpayments crisis. Last year consumer indebtedness rose by a factor of 3.8 and came to R46.2 trillion. In other words, in 1994, approximately 40 percent of the complex's output was not paid for. Moreover, if for the TEK as a whole a persistent surpassing of debtor over creditor indebtedness has been observed, then the situation for the sectors is not quite as simple: at the end of the year, oil refining, petroleum product provision, and the coal industry turned out to be owed more than those who were not paid by consumers.

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

Judging from Mintopenergo data, the "oppression of petroleum production by other participants in the technological chain" was not overcome: The petroleum producing enterprises suffered the greatest losses last year—nearly a trillion rubles, or 55 percent of all losses in the TEK. This kind of situation best illustrates the paradoxical situation taking shape in the TEK. Formally, all enterprises one way or another are united in the company according along the "production-to-sale" line. However, the erosion of intracorporate links (which only the LUKoyl company has begun to overcome) reduces the status of "oil company" to the purely nominal and confirms the thesis that mother companies scarcely control the situation in a holding, wholly ceding the initiative to daughter AO's. This situation is intensified by the inability of the holder of the controlling packages of shares—the government—to have a real effect on the financial conduct of the managers of companies and their structural subdivisions. Mintopenergo specialists cite unfair tax policy as another reason for the difficult financial position of the petroleum sector. According to their data, the tax component in the cost of petroleum products has reached approximately 70 percent. Of this, special taxes make up more than half.

The formally deteriorating financial status of the complex could not fail to take its toll on investment activity. According to Mintopenergo assurances, the sharp curtailment in budgetary allocations cannot be compensated for out of enterprises' own funds. As a result, capital investments in the branch decreased by 27 percent, totaling R26 trillion. True, the greatest decrease in capital investments occurred in the petroleum producing industry (41.6 percent), whereas in oil refining enterprises and Gazprom RAO investments increased, albeit insignificantly (on this backdrop, the REUTERS report about Gazprom investing $5 million in an American electronics company is not at all surprising). The analytical information prepared for the board meeting completely skirts the issue of the investments' quality and effectiveness. However, the research conducted by specialists from the Federal Administration on Insolvency Affairs demonstrated that among the reasons for the loss of their own capital in the branch's circulation funds were their long-term financial investments and poor investments in fixed capital that were inefficient for the owner.

* Development of Experimental An-70 Plane Detailed

954F1495A Moscow IZVESTIYA in Russian 23 Feb 95 p 5

[Article by IZVESTIYA Correspondent Sergey Leskov, Kiev: "Crash of the Airplane of the 21st Century: Too Close in the Air or Broken Communications on the Ground?"]

[FBIS Translated Text] **A few days ago during a flight at the testing base in Gostomel near Kiev there was an accident involving an experimental model of An-70, which was being developed jointly by Russia and Ukraine with the participation of Uzbekistan. Seven men were killed—the whole crew of ANTK [acronym unidentified] imeni Antonov, led by the well known test pilot and the company's chief pilot, Sergey Maksimov.**

The first, official version of the disaster blamed it on the carelessness of the pilot of the An-72 escort craft, which came too close to the An-70 and cut off its tailfin.

The pilot was able to land his damaged craft in Gostomel. He went to the funeral, and it was frightful to look at that sturdy man: he could only walk by leaning on his wife.

General designer Petr Balabuyev is holding up somehow, but his face is dark and gloomy. He smokes continuously and sometimes fails to notice questions. This man was considered the pride of Soviet aircraft construction; now his superiors and friends are trying to persuade him not to resign....

According to eyewitnesses, after the accident the plane momentarily went into a spin at 3,000 meters and picked up speed so fast that none of the flyers was able to reach the special tube to bail out. In accordance with test pilots' unspoken tradition, during the descent—whose outcome was obvious—all seven maintained complete silence. In such a situation, every word might serve as a verdict of guilty for all concerned. But the black box was found, containing recordings of 296 parameters of the aircraft's fall. A state commission, which includes representatives of Russia, is analyzing it.

THE SKIES HAD NEVER SEEN SUCH A CRAFT

A year ago I saw the An-70 military transport on the building blocks of ANTK imeni Antonov. The general designer's eyes gleamed with pride. The craft he was building had unique specifications. Western experts think that in this regard we have passed up all competitors by at least six years. The An-70 is the world's only duct-fan airplane, which affords unique characteristics. The famous Rolls Royce, for all its might, has been puzzling how to develop such a unit for many years, but in vain.

The plane needs only 600 meters to take off from an earthen runway (constituting 80 percent of all airports in the CIS), and it can haul 20 tonnes of freight 3,000 kilometers. On concrete runways the parameters are better—35 tonnes for 5,000 kilometers. The craft's D-27 engine, aerodynamics, and other sophisticated specifications have specialists calling the An-70 "the airplane of the future." And they are not just blowing soap bubbles. Until the accident that day, there was a steady stream of Western delegations to Kiev, and the foreign press was brimming with hints that it might be more useful to give up developing Europe's FLA transport airplane in favor of the An-70. Now, competitors might make up their lag. Incidentally, the An-70's market value is set at 70 to 80 million dollars.

The only experimental copy of the An-70 is destroyed. According to cautious estimates, making a new aircraft will require 1.5 years, 78 billion rubles, and 740 billion karbovantsy (about 60 million dollars). And although Petr Balabuyev has submitted a restoration work plan and secured

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

the support of other companies, the main question—concerning the crucial possibility of financing—remains unanswered. And in present conditions it may remain that way.

THE LAWS OF AERODYNAMICS AND FINANCIAL LOOP-THE-LOOPS

The romantic era of the Wright Brothers is over. You just about have to be an incurable dreamer now to think that the development a modern aircraft obeys the will of its designer. A plane costs so much money that the financiers call the tune. The tragedy of the An-70 is made worse by the fact that financiers are now separated by state borders and often pursue opposing interests. Designers developing aircraft systems in various cities of the former USSR tell tragicomic stories about how the new bureaucracy and absurd new laws are inhibiting complex cooperation. Newly contrived fines, taxes, and penalties force designers to think about entrance exams for bookkeeping courses instead of airplanes.

Cooperation on the An-70 began in the early 1980s and developed in a very tangled manner. The metal was 95-percent Russian, electronics were 75-percent Russian and 25-percent Ukrainian, the power plants were Ukrainian, the wings were from Uzbekistan, the assembly was Ukrainian, and the engine was 60-percent Ukrainian and 40-percent Russian. That was for the experimental-design development. Series production was to proceed on a 50-50 basis in Samara and Kiev.

Russia financed 80 percent of the work on the An-70. Plans called for starting series production in 1996, making it possible to create 27,000 new jobs in Ukraine and 50,000 in Russia. Recently, financing of the An-70 went wholly through Russian Defense Ministry channels. Ukrainian enterprises, on the other hand, transferred money through a chain of Russian suppliers, frequently on pre-payment terms, which, as we know, takes place in our time only where there is extreme mutual interest. Many parts of the An-70 have crossed state borders several times before they wind up in the finished product.

The tangle of laws, customs hurdles, and many other stupidities hindered the work. The plane fell behind schedule. Work on the An-70 went on in a chronic financial crisis; the designers would groan and somehow make it through the day. A new term appeared in the ideology of aircraft construction—"close the financial books."

Some absurd accountancy laws required that the craft go into the air in 1994, otherwise you couldn't get any more money. Sure the craft was still in rough shape, with systems and units still needing work and testing. They didn't even have time to install back-up electronics. The craft should have been tested again and again on the ground, and if it was put into the air it should have been cautiously, in short "jumps." And, of course, without the escort craft coming dangerously close.

But in late December the crew agreed to a full-program test. The fliers knew the enterprise's financial condition and wanted to save it. Their fourth test flight was their last. The crew failed to save either the plane or their own lives.

DISASTERS NO LONGER BIG NEWS

Reports about what happened in the sky over Kiev are contradictory. The puzzle is compounded by the An-72 escort plane parked in Gostomel: neither I nor specialists who inspected it (to be sure, they didn't let us get very close) could see any trace of collision damage. Yet Petr Balabuyev insists that "nothing happened on board; the cause of the accident was a stupid collision in which the An-72 overtook the An-70 and its wing hit the experimental craft's tailfin."

Given the absence of mechanical damage (or very little damage), another version has been proposed: the close approach of the planes led to a change in the inadequately-studied aerodynamics of the An-70 and disruption of its flight. Indirect confirmation of this is provided by eyewitnesses who say that the An-70 suddenly ballooned sharply upward and then went into a steep tailspin. Incidentally, the maneuvers of the escort craft did not surprise the An-70's crew. The commander himself had asked them to fly above and look at the operation of the flaps.

At any rate, the An-70's behavior did not go according to plan, because too little was known about it. It should not have been flown....

The absurdity of this tragedy is that a couple of months ago, during test flights in Zhukovskiy, the Tu-22M strategic bomber collided with a big Tu-134 escort craft. The collision destroyed the Tu-134 and its crew. The disaster in Zhukovskiy went according to the same scenario as in Gostomel. And a little before that, an Il-76 crashed during a test flight. There have never been such coincidences in aviation history, because broad segments of specialists have always had access to the examination and analysis of accidents and have drawn careful conclusions.

That's how it always was, but not now. Because now Russia and Ukraine are different countries. And no one in Kiev knew about the accident near Moscow. The borders are solid, information can't get through.

The obvious conclusion is that it was not coming too close that caused the crash of the An-70, the aircraft of the 21st century. It was the tragic and unnecessary disunity. Probably no commission can dispute this conclusion now.

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

Economic Issues

Catalogue of Hazardous Industrial Waste Cited

WS0103085495 Kiev UKRINFORM in English 1500 GMT 27 Feb 95

[From the "Business News Weekly" feature No. 8, 20-26 Feb 95]

[FBIS Transcribed Text] The State Informative Geological Fund (GeoInform) is reported to have drafted a catalogue of Ukraine's industrial waste which included information about 1,304 mining/dressing, processing, engineering, and other factories and enterprises. There are about 3,000 entities in Ukraine which pose potential technigenic hazards.

The catalogue contains information about physical amounts and aggregate state of each entity's annual emissions, space used for dumping wastes, utilization and chemical composition of wastes, etc. Certain wastes are evaluated in terms of their radiological hazards.

GeoInform has reportedly been recently active in creating a computer-assisted database for the State's Register of Secondary Resources, which incorporates the catalogue's data, too. The database is supposed to include information about technologies for waste utilization and/or waste reprocessing applicable to each specific factory.

The status of Ukraine's technigenic mineral deposits has been defined by the Ukrainian Mineral Deposit Code.

The Verkhovna Rada (parliament) of Ukraine is expected to soon start hearings of the bill of Ukraine on waste, which the State Committee for Geology has drafted. The bill reportedly provides for privileged taxation for enterprises engaged in licensed reprocessing of the aforementioned technigenic wastes.

Ukraine's Waste Amount Appraisal

According to the State Committee for Geology, about 25 billion tonnes of solid waste have been accumulated in Ukraine by now, with their annual increment rate appraised at 1.8 billion tonnes, of which only 0.3 billion tonnes are industrially utilized.

The State Committee's "Mineral and Raw Material Base of Ukraine into the Year 2005" program, which is expected to shortly assume the national program status, contains a special section involving prospect and development of Ukraine's technigenic mineral deposits.

Presently, such survey is carried out in a very simplistic and fragmentary manner, which rules out comprehensive analyses of the deposits' full spectra of useful components and which drastically reduced prognostic efficacy of the deposits' potential economic returns.

The GeoPrognoz (Geological Prognosis) enterprise and the Moscow- based Institute for Chemical Technologies have conducted pilot studies involving the Zaporozhye titanium/manganese factory and Nikolayev's aluminum factory. The thus obtained results will allow the factories to reprocess their wastes, which are normally used to manufacture construction materials. Ukrainian geologists are contemplating more renumerative applications for their waste reprocessing technologies to technigenic mineral deposits to recover metals, including precious metals.

Ukrainian Wastes' Structure

Steel melting, ferrous alloy, titanium/magnesium, nickel and other factories in Ukraine's Donbass, Transdniepria, Crimea, and Transbug regions produce metallurgical slags as their by-products which contain toxic elements, such as arsenic, cadmium, sulphur, copper, lead, etc. These pollute both the atmosphere and subsoil water. All in all, about 2 billion cubic meters, or 6 billion tonnes, of metallurgical slags have been accumulated in Ukraine by now. These have been but partly utilized to produce road [as received] metal and mineral fertilizers.

Ukrainian fuel-fired power plants need more intensive and advanced technologies to get rid of their stocks of ashes, basically from coal burning. These ashes contain arsenic, mercury, lead, germanium, and selenium, which are carried by winds to great distances and are very harmful to the environment.

These ashes are used in cement production.

Ukraine's coal-mining Donbass, Krivoy Rog, Volyn, Transcarpathian, and Transdnieprian regions have accumulated piles of wastes containing coal, which is apt to self-ignition. Each tonne of Donetsk coal contains 30 kilograms of sulphur, 70 grams [g] of arsenic, 70 g. of fluorine, 30 g. of beryllium, 20 g. of nickel, and one gram of mercury.

Utilization of Major Secondary Raw Materials and Production Waste in 1994 (According to the Ministry of Statistics)

	Amount in 1994	Increase/decrease (-) of utilization rates vs. 1993 (percent)	Increase/decrease (-) of utilization rates vs. 1990 (percent)
Paper waste	206.2	-32.5	-67.8
Secondary polymeric materials	16.1	-35.1	-67.9
Secondary textile materials	28.8	-45.5	-78.7
Used tires	5.9	-50.4	-82.1
Glass waste	105.5	-25.1	-47.7
Phosphogypsum	63.4	-44.2	-94.6
Blast furnace slags	6,610.9	-47.6	-69.4

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

Utilization of Major Secondary Raw Materials and Production Waste in 1994
(According to the Ministry of Statistics)

	Amount in 1994	Increase/decrease (-) of utilization rates vs. 1993 (percent)	Increase/decrease (-) of utilization rates vs. 1990 (percent)
Steel melting slags	1,230.3	-46.5	-77.7
Ferrous alloys melting slags	994.6	-20.5	-36.4
Lime waste	887.2	-2.9	-74.3
Solid household waste	75.6	-66.6	-85.9
Open-cast mining, rock and other by-products of road metal production, ths cu. m.	3,421.4	-47.2	-53.2
Bentonite clays	605.0	-44.4	-59.9
Coal extraction and dressing waste, total	5,692.3	-16.8	-46.2
Ashes and other wastes from fuel-fired power plants and local boilers	2,805.6	27.6	-17.5
Timber waste, ths cu. m.	1,590.4	-38.8	-68.9
Green vitriol	5.8	-86.8	-95.4
Construction wastes, ths cu. m.	1.2	-20.0	-84.8
(The above data was furnished by GeoInform's expert Oleg Benta).			

Statistics Ministry Data on Trade by Commodity Categories

WS0103085395 Kiev UKRINFORM in English 1500 GMT 27 Feb 95

[Ministry of Statistics data on Ukrainian foreign trade's breakdown in 1994—from the "Business News Weekly" feature No. 8, 20-26 Feb 95]

[FBIS Transcribed Text]

	(in millions of U.S. dollars)	
Commodity groups	Exports	Imports
Total	9,882.6	9,767.9
Live animals and animal husbandry products	340.1	61.0
Vegetable products	81.9	106.0
Animal and vegetable fats and oils	55.6	4.9
Food industry products	560.3	164.5
Mineral products	1,016.0	5,228.9
Chemicals and related industr.	1,028.9	552.3
Plastics and rubber	304.4	356.2
Leather, skins, furs (raw materials and articles)	85.3	52.2
Timber and woodwork	15.9	254.2
Paper pulp made of timber or other plant fibers	130.0	83.6
Textiles and textile articles	159.6	295.4
Footwear, headgear, umbrellas	25.3	38.4
Stone, gypsum, cement, glass, asbestos articles	230.4	61.5
Natural pearls	5.9	9.2
Non-precious metals and articles made from them	3,578.9	415.6
Machinery, equipment and mechanical devices, appliances, tape recorders, vcr's, TV sets	1,376.5	1,448.5
Road vehicles, aerial and water craft	705.5	430.7
Optical, photo-, cinema-, measuring, medical and surgical instruments; clocks and watches; musical instruments	52.1	121.8
Miscellaneous manufactured goods	130.0	83.0
Work of arts	-	-

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

BULK RATE
U.S. POSTAGE
PAID
PERMIT NO. 352
MERRIFIELD, VA.

This is a U.S. Government publication produced by the Foreign Broadcast Information Service (FBIS). Its contents in no way represent the policies, views, or attitudes of the U.S. Government.

FBIS collects, translates, disseminates, and analyzes foreign open-source information on behalf of the U.S. Government. Its publications may contain copyrighted material. ***Copying and dissemination is prohibited without permission of the copyright owners.***

— Bracketed indicators before the first sentence of each item describe the way in which the material was processed by FBIS.

— Headlines and all bracketed explanatory notes are supplied by FBIS.

— Personal and place names are rendered in accordance with the decisions of the U.S. Board on Geographic Names as adapted by FBIS. Unverified names in radio and television material appear in parentheses and are spelled phonetically; words and phrases in parentheses preceded by a question mark are unclear in the original and deduced from context.

SUBSCRIPTION INFORMATION

U.S. Government Customers

For a list of FBIS products, to subscribe to an FBIS publication, or to indicate a change of address contact:

FBIS
P.O. Box 2604
Washington, DC 20013-2604
Telephone: (202) 338-6735
FAX: (703) 733-6042

Non-Government Customers

Subscriptions are available from the National Technical Information Service:

NTIS
5285 Port Royal Road
Springfield, VA 22161
Telephone: (703) 487-4630
FAX: (703) 321-8547

New subscribers should expect a 30-day delay in receipt of the first issue.